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## NEWS SUMMARY

### GENERAL

#### Gibraltar border reopening doubted

Doubts over Friday's scheduled reopening of Gibraltar's border with Spain arose in Madrid among Spanish ministers. They also put at risk the scheduled simultaneous Anglo-Spanish talks on the Rock's future to be held at Sintra, Portugal.

It is understood Spain will seek an undertaking that Britain will discuss sovereignty, when their foreign ministers meet in Luxembourg today to discuss Spain's EEC-membership bid. Page 2

#### PSA inquiry

A parliamentary inquiry into alleged fraud and irregularities at the Property Services Agency starts today. An inquiry into PSA fraud and corruption was under way earlier. Back Page

#### Tube disruption

A complete shutdown of London's Underground is likely today in a dispute over timetables. Page 9

#### Health pay talks

The Government meets National Health Service trade union leaders today. It is widely expected to improve its pay offer in advance of the 24-hour strike set for Wednesday. Page 9

#### Dockyards row

Dr David Owen was accused by the Transport and General Workers Union of trying to set dockyard workers against each other and urged to resign his seat. Page 9

#### Fraud warning

The public risks fraud and embezzlement in dealings with small building societies, says a report by an Institute of Chartered Accountants committee set up after the Alfreton Building Society case. Page 4

#### Scarman approval

Lord Scarman welcomed the launching of Black Rights UK at its inaugural meeting. The group seeks a Bill of Rights.

#### Ulster blast

An Ulster Defence Regiment captain who lost both legs in a car-bomb blast at Armagh in the third IRA attack over the weekend was still seriously ill.

#### Reconciliation

Thousands of Liverpool Orange Lodge members took part in a service in the city's Anglican cathedral for the first time in 50 years. It was for reconciliation.

#### Le Mans winner

Jacky Ickx of Belgium and Derek Bell of Britain won the Le Mans 24-hour endurance race in a Porsche 956T.

#### World Cup

England beat Czechoslovakia 2—0 to qualify for the second stage. West Germany beat Chile 4—1.

#### Briefly . . .

National Scrabble champion is accountant Russell Byers with record 1,626 points in three games against different players.

Mencap Week starts. Thames TV's Help programme will seek volunteers to befriend the mentally handicapped.

British free-fall record set by 27 members of RAF Sport Parachute Association who linked up.

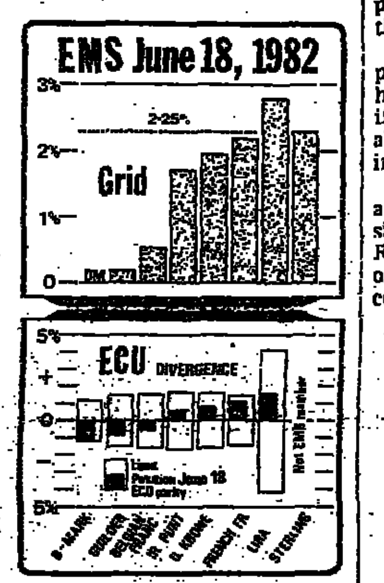
Statue of Liberty needs urgent restoration. Men and Matters, Page 12

### BUSINESS

#### Financial scandal threatens Italy

● BANCO AMBROSIANO affair, culminating in the death of chairman Roberto Calvi, is threatening to prove Italy's biggest financial scandal since the Sindona empire collapsed in 1974. Back Page

● REALIGNMENT of the European Monetary System took the immediate pressure off the French franc and Italian lira last week. Both currencies were devalued, leaving the Belgian franc looking increasingly vulnerable to renewed speculative attack. Brussels and Euro Belgian franc interest rates moved up to support the currency although it was well within its alarm bell divergence limit. Most concern centred on the dollar's strength against all EMS members. The French franc and lira fell to record lows against the dollar in spite of central bank support, and the D-Mark was at its lowest against the U.S. currency since last August.




The chart shows the two constraints on European Monetary System exchange rates. The upper grid based on the weakest currency in the system defines the cross rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from its "central rate" against the European Currency Unit (ECU) itself a basket of European currencies.

● COSTA RICAN external bond proposals could set a precedent for treating Eurobonds in international debt rescheduling. Back Page; International bonds, Page 17

● SWAPPING NEW SHARES for outstanding corporate debt is a craze sweeping through U.S. boardrooms. Page 17

● SECURITIES SELECTION, based in Bermuda, today launches a managed currency fund—Forexfund. Page 14

● MESA PETROLEUM, Texas oil company, abandoned its bid for Cities Service, removing a major obstacle to the latter's acquisition by Gulf Oil. Page 18

● UK OFFSHORE oil supply boat operators needs fear no protectionism from Norway, Shipping Minister Iain Sproat said after talks in Oslo. Page 3

● MERSEY DOCKS and Harbour Company is to withdraw its cargo-handling operations for conventional liner services from Birkenhead. Page 4

● GOVERNMENT'S CO-OPERATIVE Development Agency is seeking to second from big companies four executives with marketing and accountancy experience. Page 4

● HOMEFAST, a private parcel service starting today, could cause a 35 per cent decline in Royal Mail deliveries, says a Post Office report. Page 4

## CONTENTS



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# U.S. monetary policy changes considered

BY ANATOLE KALETSKY IN WASHINGTON

THE REAGAN Administration is considering far-reaching changes in U.S. economic policy, with particular emphasis on the Federal Reserve system's methods of monetary control, Mr Donald Regan, the Treasury Secretary, and other senior Administration officials revealed over the weekend.

A series of disclosures on the re-examination of economic policy began when Mr Regan said at a Washington Post lunch that he concurred with the prevailing view on Wall Street that the next move in U.S. interest rates was more likely to be up than down. Speaking on the record, Mr Regan declared that the Administration could not "just stand there" with unchanged policies, if unemployment and interest rates remained high.

Although President Reagan has repeatedly said he would not "print more money" to pull the U.S. economy out of recession, statements such as that of the Treasury Secretary may indicate that the President's desire to see interest rates fall, and economic activity pick up, may now be gaining the upper hand.

Mr Regan said that, with inflation under control and after congressional agreement this month on a budget programme, there was nothing but monetary policy to explain the continuation of high interest rates.

The recent sharp fall in the price of gold, a traditional hedge against inflation, showed it was not the markets' fears about inflation which was driving interest rates up, he added.

The Treasury was studying actions of other presidents in similar circumstances, Mr Regan said. This, according to officials, was a reference to the constitutional relationship between the president, the congress and the Federal Reserve. The Federal Reserve is formally independent of the president, although it is answerable to Congress.

"On the other hand, the president is elected by all the people, and he has a right to put his policies into being and to be held accountable for them," Mr Beryl Sprinkel, the Treasury Under-Secretary for Monetary Affairs, said on Saturday in a separate milieu. "Since we have been here, we have not gotten the kind of monetary policy we asked for," he added.

The Federal Reserve has been strongly criticised by Mr Regan, Mr Sprinkel and other Administration officials this year, but there are sharp differences of view within the Administration about how monetary policy could be improved.

Certain officials believe that the Fed has failed by allowing monetary growth to fluctuate too erratically outside its target range. This is alleged to have created uncertainty and has led investors to question the strength of the Fed's determination to reign in monetary expansion. According to Mr Sprinkel and other hard-line monetarists in the Administration, all this has added premiums for uncertainty and inflationary fears to what would otherwise have been much lower rates of interest.

Other officials have argued that the Fed's preoccupation with quantitative monetary targets is the real problem. They would prefer the Central Bank to return to concentration on the level of interest rates. Some believe that the counter-inflationary impact of present monetary policies could then be maintained by a reform of the dollar to a gold standard.

The monetarist faction in the Administration has been calling on the Fed to tighten its procedures, and retain its present monetary targets.

Among procedural reforms suggested have been a new system of reserve accounting for banks and stricter control of the amounts of reserves which the Fed provides to banks. The Fed has argued that such reforms would probably lead to even wider fluctuations in interest rates.

Although such reforms might improve the Fed's ability to make money grow along a narrowly defined path in the very short term, Fed economists believe that short-term monetary fluctuations have no economic significance.

Mr Regan hinted that it was this kind of procedural change he would be seeking. "The Fed's policies are correct. It is their practices that are leaving a lot to be desired," he said.

But other officials have suggested that the Administration would only be interested in a change in Fed policies which result in a reasonably quick fall in interest rates. Congressional advocates of a change in the Federal Reserve's constitutional independence have advocated either an easing in monetary policy or a return to the gold standard, with the Fed concentrating on maintenance of a reasonable level of interest rates.

Mr Paul Volcker, the Fed's chairman, told Congress members last week that any Fed actions to ease monetary targets would result, at best, in a fall in interest rates only for the short term. In the longer term, it would aggravate fears of inflation and cause interest rates to rise.

# Malaysia agrees to join proposed tin agreement

BY JOHN EDWARDS, COMMODITIES EDITOR

MALAYSIA announced yesterday that it was prepared, after all, to join the proposed new international tin agreement between producing and consuming countries that control the world's tin market.

But it is insisting on the formation of a separate producers-only association. This may well upset consumer countries already concerned by the militant stance taken recently by Malaysia.

The International Tin Agreement is the oldest commodity pact. It regulates the market by use of a buffer stock that buys up surplus tin and it will use export controls if necessary, to prevent tin prices falling below an agreed "floor."

Conversely, the buffer stock sells any holdings it has to prevent prices going through an agreed ceiling.

The Straits tin price in Malaysia is at the floor level in spite of sustained buying by the buffer stock which is believed to have acquired more than 40,000 tonnes of tin—about a quarter of world annual consumption. Tin prices in London on Friday were at their lowest for five years—about £1,000 below the Straits tin price.

Malaysia's decision to join means the new agreement could come into force on July 1, allowing the buffer stock to continue operating and more stringent export controls to be introduced.

Dr Datuk Seri Mohammed Mahathir, the Malaysian Prime Minister, announced in Kuala Lumpur that his country would take part in the new tin agreement. But he added that Malaysia, Indonesia and Thailand, who control about two-thirds of world tin production, had agreed to the immediate creation of a tin producers' association because they felt the new tin agreement would fail to protect their interests.

Details of the association will be announced on Tuesday—the day before talks are to resume in Geneva on implementing the new tin agreement.

The talks were adjourned earlier this month when Malaysia said it was uncertain whether it was going ahead with an agreement which had been ratified by only 51 per cent of consumer countries—way below the 65 per cent required for the agreement to come into force.

The U.S. has decided against joining and, so far, Russia and several smaller countries have also indicated they are unwilling to join. Japan and the EEC have said they will join, although West Germany and Britain are insisting on a clause in the agreement opposing manipulation of the market.

This is a clear reference to the mystery buying group believed to be acting on behalf of producer interest which earlier this year pushed tin prices to a record level of £9,000 a tonne.

# Sale of BA's Aeradio subsidiary likely to be announced today

BY RAYMOND SNODDY

THE forthcoming sale of British Airways' profitable International Aeradio subsidiary is expected to be announced formally in the Commons today.

But it looks increasingly unlikely that other BA subsidiaries will be sold before the airline as a whole goes to the private sector.

Mr Ian Sproat, the Under Secretary of State for Industry, will tell MPs, in a Commons answer, that the Government has been told that BA intends to sell International Aeradio. He will give no further details on the grounds that it is a matter for British Airways and that it is too early to say.

Nonetheless, a memorandum—in effect a prospectus—on Aeradio International is likely to be sent to interested companies later this week. The company makes air traffic control systems and manages airports in the Third World.

The decision to offer it for sale by tender to private companies was taken after speculators made high short term profits from the recent sale to the public of shares in Amersham International, the radioactive medical products company whose disposal caused a major row in the Commons.

S. G. Warburg, the merchant bank, was asked to draw up the memorandum, which will go to more than 30 companies which have written to express interest in buying International Aeradio. The interest came although the company had never been formally offered for sale.

The companies include GEC, Racal, Plessey, Grand Metropolitan and BAT Industries in the UK, Siemens in West Germany, Philips in Holland, and Litton Industries in the U.S.

International Aeradio is also involved in air timetables and maps, weather forecasting and hospital management. It made pre-tax profits of £6.3m on revenues of £134.7m in 1980-81, and has been consistently profitable since it was founded in 1947.

It is believed there was government pressure for other BA subsidiaries to be sold to help reduce the airline's deficit, which is approaching £1bn. The subsidiaries included British Airways helicopters, British Air Tours and Sovereign Holidays.

Mr Sproat, however, is now thought to be prepared to tell the Commons that he has not been consulted by BA on any other sale plans by BA. The airline said at the weekend it had no plans to sell other subsidiaries.

Duncan Campbell-Smith adds: S. G. Warburg is already preparing the selling prospectus for the Government's next major project for the private sector. This is the sale of Britoil, the company which has taken over the exploration and production interests of the British National Oil Corporation. The Government's target date for a public flotation is still believed to be November at the earliest.

Warburg is acting on behalf of the Department of Energy as the seller, but Britoil itself is being advised by N. M. Rothschild, the merchant bank which advises BNOC and has played a lead manager's role in earlier flotations of public sector companies, most recently Amersham International.

Warburg said yesterday that its own role as lead manager in the Britoil issue had been understood clearly since an anouncement to that effect four months ago by Mr Nigel Lawson, the Energy Secretary. Nevertheless, the bank was working closely with N. M. Rothschild on the text of the prospectus, and Britoil's banker was providing background details.

No decision on the pricing strategy to be used in the case of Britoil was likely to be taken until much nearer the launch date, said Warburg. An offer by tender remained one option, but a final decision might come only days before the launch.

# Last isle captured by UK forces

By Hugh O'Shaughnessy in Buenos Aires and Andrew Whitley in London

BRITISH forces recaptured yesterday the last Argentine personnel in the South Atlantic waters. A small number of Argentines on the Thule Islands, in the South Sandwich archipelago, surrendered without a fight to a British landing party.

The Defence Ministry in London said the surrender took place at 1.30 pm London time yesterday, but full details were still awaited. Argentina has protested that British helicopters fired on unarmed civilians at an Antarctic research station.

In Buenos Aires, the three-man military junta was due to meet again yesterday, for the third day in succession, to try to agree the appointment of a new President, following the departure of Gen Leopoldo Galtieri on Friday night.

Gen Alfredo Saint Jean, the Interior Minister, is exercising the duties of President while the three armed services quarrel over policies and who should lead the country.

Gen. Galtieri's successor as commander-in-chief of the army, Gen. Cristino Nicolaides, was reported to be pressing hard to take over as head of state, with a guaranteed five-year term in office and carte blanche to pursue conservative economic policies. But his extreme right-wing views have provoked hostility among more moderate generals.

The Argentine air force, which acquitted itself well in the Falklands campaign, is united bhind the candidacy of its commander-in-chief, Brig. Basilio Lami Dozo, for the presidency. He appears to be gaining support also from some admirals. Brig. Lami Dozo, who would be Argentina's first air force president, is committed to a rapid return to civilian rule and early measures to reflate a flagging economy.

For its part, the army, smarting from criticism of its conduct in the way and from the overthrow of Gen. Galtieri, wants to see Brig. Lami Dozo and Adm. Jorge Anaya, the navy commander-in-chief, also purged, lest the land forces be seen to be bearing too much of the blame for the Falklands debacle.

Continued on Back Page

# Begin urges peace force for Lebanon

BY DAVID LENNON IN TEL AVIV AND ANATOLE KALETSKY IN WASHINGTON

MR MENAHEM BEGIN, Israel's Prime Minister, claimed yesterday that there was no difference between his views on the invasion of Lebanon and those put forward by President Ronald Reagan.

Mr Begin, who was speaking on television in the U.S., is due to meet Mr Reagan in Washington today.

The Israeli premier said his troops would leave Lebanon, but only after "the scourge of terrorism is stamped out," quoting a comment made in London by Mr Reagan.

Mr Begin said that to assist in this objective an international peacekeeping force would be needed to control the 25 miles of Lebanese territory north of the Israeli border.

This force could not be under the control of what he described as the UN "Insecurity Council." He said each contributing nation would have to make individual, detailed agreements with the Israeli and Lebanese governments.

Sporadic fighting was reported yesterday from around the Lebanese capital Beirut, where several thousand Palestinian guerrillas and Syrian troops have been encircled by Israeli forces for several days. Thousands of people continued to leave the western part of the city yesterday.

Mr Philip Habib, the U.S. special envoy, is continuing his meetings with Lebanese leaders in an effort to forestall an Israeli assault on the capital.

In Israel the Cabinet has totally rejected U.S. efforts to persuade it to negotiate with the Palestine Liberation Organisation on either a PLO withdrawal from Beirut or on the future of the Palestinians living in the occupied West Bank and Gaza Strip.

This emerged from a statement by Mr Dan Meridor, the Cabinet Secretary, after a Cabinet meeting yesterday which heard reports on the military and political situation in Lebanon.

The Cabinet was informed that Mr Habib had not made any progress on devising an arrangement which would resolve the tension caused by the Israeli siege of Beirut.

Mr Meridor said that Israel would continue to observe the ceasefire, as it had done since Friday, June 11. He said that references to a 48-hour ceasefire over the weekend had no relevance, neither did any talk about extending it.

But the continued build-up of Israeli forces encircling Beirut and the weekend clashes between Israeli, Palestinian and Syrian forces indicate that a renewal of full-scale warfare is still possible.

The Israeli Cabinet also heard of preparations the Palestinian guerrillas are said to be making to renew the fighting in the Beirut area. The most worrying report was of a build-up of thousands of guerrillas, together with volunteers from Iran and Jordan, beside Aley, a town 15 kilometres east of the Lebanese capital.

The ministers were apparently told that if the build-up and sporadic attacks on the Israeli forces continued, the Cabinet might be called into session again this week. This can only be interpreted as meaning that in those circumstances Israel will renew its massive attacks on guerrilla concentrations.

The Cabinet was also told that the U.S. would support a programme for the gradual withdrawal of Syrian forces from some part of Lebanon, but not from all areas and definitely not from the Beka Valley area of eastern Lebanon.

Ministers were also disturbed to learn that the Americans would support a continued PLO presence in Lebanan — as a political rather than a military organisation — something which runs contrary to Israel's secondary war aim of destroying the political power of the Palestinian organisation.

EEC governments have meanwhile sent a detailed series of questions to Israel in an attempt to secure a clear statement of its objectives in Lebanon. Foreign ministers meeting in Luxembourg yesterday were attempting to prepare the groundwork for the next statement on the situation.

The Ten originally condemned the Israeli invasion and called for an immediate withdrawal. The reply to the EEC questionnaire may have an important influence on the stance that the Community will now adopt.

EEC officials make no secret of the difficulties the Community is having in trying to co-ordinate a policy line with the U.S.

Having witnessed the obvious fury of Mr Alexander Haig, the U.S. Secretary of State when news of the Israeli invasion reached the Versailles summit two weeks ago, EEC foreign ministers are surprised at the way the Reagan Administration has so quickly succumbed to its domestic pro-Israeli lobbies and avoided taking any sanctions against Jerusalem.

Saudi Arabia warned at the weekend that the Arab countries would exercise their rights of territorial defence if Israel attempted to enter Beirut. The warning was issued after talks between the Saudi and Syrian foreign ministers.

# Syrians resisting Israeli pressure to quit Beirut

BY PATRICK COCKBURN IN DAMASCUS

SYRIAN soldiers will not be withdrawn from Beirut under Israeli pressure Mr Ahmed Iskander Ahmed, the Syrian information minister, said yesterday. He added that Syria could also not comply with requests for a troop withdrawal from Lebanese President Elias Sarkis because he was surrounded by Israeli soldiers and not a free agent.

Clarifying reports of a new strategic agreement between Syria and the Soviet Union, upgrading the existing friendship and co-operation treaty, Mr Iskander said that Syria wanted such a new treaty but nothing has yet been signed.

The Syrians feel that Israeli military successes, particularly the destruction of the Sam anti-aircraft missile system in the Bekaa Valley, are the result of the U.S. providing Israel with its most modern weapons. "The most sophisticated armaments in the U.S. are tested by the Israeli leaders," Mr Iskander said.

Syria clearly wants comparable weapons systems from the Soviet Union, but there are still no signs that Moscow is prepared to provide these. Under the present treaty the Soviets have guaranteed Syrian territory against Israeli attack, but this guarantee does not extend to Syrian forces in Lebanon.

The Syrian belief that President Sarkis is acting under duress will make it extremely difficult for any long-term agreement involving the Lebanese Government to be worked out. "Israeli tanks are close to Babda Palace where President Sarkis lives," Mr Eskander said yesterday. This prevents the Lebanese leader taking any decision independently, he claimed.

Iraq has started to withdraw its troops from the remaining Iraian territory it occupied at the start of the Gulf war, it was announced in Baghdad yesterday. The Iraqi News Agency said the withdrawal would be completed in 10 days. Iraq has suffered a series of major military defeats this year and on June 10 made its first offer of an almost unconditional withdrawal.

It seems that Iraq has now decided to go ahead without receiving any indications from Iran that it is willing to negotiate a peace treaty. Iraq announced a unilateral ceasefire 10 days ago.

In the past, the Syrians have always said that they would leave Lebanon, which they entered in 1976, to end the civil war if President Sarkis asked them to. They now apparently regard the Lebanese administration, which is almost entirely without executive authority, as Israel's chess pawn.

Yesterday's Press conference was the first given by the Syrian Government since the Israelis invaded Lebanon over two weeks ago. Damascus has made little effort to explain its policies to either the media or to foreign ambassadors. Diplomats ascribe this reticence to the Syrian Government's inability to decide its best course of action.

Mr Iskander gave no indication that the ceasefire between Israel and Syria was expected to break down, but the Syrians are clearly hopeful of greater support from the Soviet Union. So far the only foreign troops to arrive are from Iran. Some 2,100 of these are believed to have reached Syria, but only a small number are in Lebanon.

Lebanese man argues with Israeli soldier as hundreds try to head back to South Lebanon

# Doubt over reopening of Gibraltar border

By Tom Burns in Madrid

LAST-MINUTE doubts by some Spanish Ministers have put in jeopardy the re-opening of the Gibraltar border and the simultaneous talks over the future of the rock to be held in Sintra, Portugal, between delegations headed by Mr Francis Pym and Sr Jose Pedro Perez-Llorca, Spain's foreign minister.

It is understood that Sr Perez-Llorca would make a final effort to obtain from Mr Pym an undertaking on Britain's willingness to discuss the sovereignty of the rock when both ministers meet in Luxembourg today during negotiations linked to Spain's EEC membership bid.

Earlier optimism that both the border opening and the talks would go ahead as planned on June 25 was overtaken at the end of last week by what an authoritative source called "cold feet" among certain Spanish ministers.

The ministers questioned the wisdom of throwing away Spain's principal bargaining counter in the vexed Gibraltar dispute by unilaterally lifting the blockade imposed by General Franco 13 years ago.

The doubts reflected political nervousness in the Government, which is reluctant to aggravate right-wing and military circles that have consistently viewed the border reopening as betrayal.

The uneasy relationship between the Government and conservative army sectors came into the open last Thursday when two generals were placed under house arrest following a tense incident with the president of the court martial tribunal that sentenced last year's coup rebels.

Unless Sr Perez-Llorca returns from Luxembourg convinced that he will obtain a substantive negotiating agenda when he meets Mr Pym again on Friady, officials said Spain was likely to postpone the talks and the border re-opening. This would be the second revised date for both events. They were postponed last April in the wake of the Argentine invasion of the Falkland Islands.

To prepare Spanish public opinion for the possibility, most Spanish newspapers published front-page reports on Sunday saying Britain was in no mood to negotiate Gibraltar sovereignty, and the Conservative. Madrid newspapers Ya and ABC editorially called for a postponement.

President Reagan expands ban on provision of oil and gas equipment destined for Siberia pipeline

# U.S. sanctions worsen transatlantic tension

BY PAUL CHEESERIGHT, WORLD TRADE EDITOR

PRESIDENT REAGAN'S decision to extend economic sanctions against the Soviet Union is likely to exacerbate transatlantic tensions over the wisdom of East-West trade, especially because the nature of the decision was unexpected.

The unilateral move will open old European wounds about U.S. attempts to extend its jurisdiction, raising sensitive issues of sovereignty.

Following a meeting of the National Security Council in Washington last Friday, President Reagan expanded a ban on the provision of oil and gas equipment destined for the £4.5bn Siberia-West Europe gas pipeline to include equipment manufactured by the foreign subsidiaries of U.S. groups and those made outside the U.S. under licence to American companies.

At the end of last year the U.S. placed a limited embargo on the sale of U.S. goods to the Soviet Union following the imposition of martial law in Poland. Goods made in the U.S. for the pipeline were included, reflecting continuing U.S. concern about what was seen in Washington as growing European dependence on Soviet energy.

The EEC's reaction was angry. Contracts for the sale of pipeline equipment had been signed already. The effects of the embargo would cut into well-established trading links. Further, there was some doubt about how much liberalisation in Poland would be helped by waging economic warfare on the Soviet Union.

The U.S. case, in European eyes, lacked conviction because Washington was not prepared to halt grain shipments to the Soviet Union. It therefore appeared to be asking Europe to bear the brunt of a policy which European governments did not accept as valid.

By March, the U.S. seemed to reconsider the issue. American officials privately conceded that, in future, the emphasis of policy would be shifted from goods to financial sanctions.

Attempts to win European acceptance for a system of credit quotas ended in the Versailles economic summit conference early this month with an agreement that "commercial prudence" would be exercised in offering facilities to the Soviet Union.

The impression was gaining ground that the U.S. would relax its oil and gas equipment embargo to allow existing pipeline contracts to move ahead. Hence the lobbying in Washington last week by General Electric and Caterpillar, two U.S. groups involved on the pipeline with a long record of Soviet trading.

Indeed, Mr Shintaro Abe, the Japanese Minister of International Trade and Industry, was quoted as expecting a relaxation in Washington at least as far as U.S. parts for a pipeline running East towards Japan from Siberia were concerned.

Certainly, the sudden stiffening of U.S. policy may delay further the Siberia-West Europe pipeline which, on the original building schedule, should have come on stream in 1984, but which had seemed likely, because of the first sanctions announcement, to be held up for at least a year.

The basic technology for the turbines and compressor stations, which push the gas along the line, is from the U.S. The European turbine manufacturers with contracts—AEG-Kanis of West Germany, John Brown Engineering of Scotland and Nuovo Pignone of Italy—are manufacturing associates of GE of the U.S.

Also, the compressor manufacturers with pipeline contracts—Demag of West Germany, Creusot Loire of France and Dresser France—use U.S. technology from Cooper or Dresser Clark.

Some smaller equipment suppliers, like Walter Kidde of London which are believed to have a contract for fire protection systems, are direct subsidiaries of U.S. groups.

Although the Reagan Administration can stop the movement of goods and technology from the U.S. to such groups, the degree to which it can exercise control over them is more problematic. Theoretically, the U.S. Government could exact penalties from the U.S. units of European companies transgressing the latest sanctions decision.

But this would enflame the dispute which will surely start over the U.S. decision to seek control over the foreign subsidiaries of American groups.

Under U.S. law, foreign subsidiaries of American groups are defined as "persons subject to the jurisdiction of the U.S." This assertion is made even when the shareholding of U.S. interests is as low as 25 per cent.

In Europe, this claim legally to control subsidiaries is contested. It is generally held that the nationality of a company is dictated by its place of incorporation. Thus, except where there is an identity of policy between the U.S. and a European power, attempts by Washington to exert jurisdiction over a company registered in Europe is seen as an attack on sovereignty.

The issue has been a bone of contention for long. Over the last year, British and U.S. officials have sought an agreed definition for the nationality of a company in order to prevent dispute. It is on the agenda for talks which Mr Peter Rees, the Minister for Trade, will hold in Washington later this month.

The atmosphere for progress towards such agreement had seemed better this year than at any time over a decade. The U.S. had shown its sensitivity by refraining from seeking to apply its Libya sanctions policy to subsidiaries.

But President Reagan's latest move seems likely to bring to the foreground a simmering issue just at the time when trade friction between the U.S. and the EEC has reached a new level of acerbity over European steel sales in the U.S.

AEG-TELEFUNKEN, the troubled West German group involved in turbine deliveries for the Urengoy pipeline, has reacted bitterly to the U.S. Administration's new restrictions on the provision of U.S. technology for the project, James Buchan writes from Bonn.

In a statement released on Saturday night, the group said the extension of restrictions would have serious consequences for the group and could endanger thousands of jobs at its AEG-Kanis subsidiary and among its suppliers.

AEG-Kanis won an order, estimated to be worth about DM 650m (£151.8m), for 47 turbines last autumn. The statement complained that the order was won long before the administration imposed its ban on U.S.-made components at the end of December.

The extension of the ban on rotor sets for the turbines made by General Electric of the U.S. now covers such European licensees as Alsthom Atlantique of France. It has, says the statement, "to all intents brought to nothing AEG-Telefunken's efforts to find a West European solution" to the pipeline problem.

Count Otto Lambsdorff, the West German Economics Minister, was equally sharp in his criticism of the decision as based on a dubious premise and as setting a serious precedent.

Speaking in Baghdad, he said the administration's action raised questions about whether the U.S. intended to take seriously the basic principles of trade laid down at Versailles and about the very future of the "international division of labour."

Count Lambsdorff has always maintained that GE's near-monopoly in the manufacture of rotors for turbines was permitted by a "conscious" decision of its competitors as the market was so small.

● Tass, the official Soviet newsagency, called President Reagan's extension of sanctions "an attempt to turn routine trade into an instrument of political blackmail," AP reported from Moscow.

It was, the agency said, a fresh move towards building up tension and "upsetting mutually beneficial business and economic East-West co-operation." At the same time the decision would aggravate differences between the U.S. and West European countries, Tass said.

# Most Argentine prisoners likely to be repatriated within days

BY JIMMY BURNS IN BUENOS AIRES

NEARLY 7,000 of 11,845 Argentine prisoners taken on the Falkland Islands are expected back on the mainland by today, as the repatriation operation continues at full swing. Britain says it will hold about 1,000 of the professional soldiers among the POWs until Argentina agrees to a complete cessation of hostilities.

The North Sea ferry Norland, with more than 1,200 prisoners on board, was expected in Argentine waters sometime today, after being temporarily delayed at Port Stanley by bad weather. Two Argentine hospital ships complete the flotilla taking the defeated army home.

When the cruise liner Canberra sailed into the small Patagonian port of Puerto Madryn over the weekend carrying the first batch of 4,200 prisoners, army troops took great pains to seal off the surrounding streets from the hundreds of people waiting to greet them.

After a brief and low-key welcome, they were bundled into fleets of army lorries and buses and taken to an unknown destination. Argentine officialdom had clearly judged it best to keep the humiliation of the occasion out of the limelight.

For the military authorities, the return of prisoners of war is proving delicate in a number of ways: no one here has any doubt that the "Malvinas generation"—the 18 to 20-year-old conscripts who formed the bulk of the army on the Falklands—will in time have a lot to say about the conduct of the war.

Some of the disilusionment and anger among the returning soldiers is only now beginning to trickle through to the Argentine public. Last Tuesday's riots in Buenos Aires sprung in part from the frustration felt by a people duped for weeks by government propaganda.

Taking advantage of the current chaos in the country's power structure, over the weekend Argentine newspapers published conscripts' accounts of the war which echoed what had already been learned by the British. The independent news agency DVYI for instance, reported that Argentine troops had suffered from poor rations and inadequate logistic support.

The present phase of the repatriation programme is expected to be brought to a close within the next day or two when the Canberra makes its second run back from Port Stanley to Puerto Madryn.

British officials have indicated that they are prepared to bring the remainder back to Britain, if necessary, as a bargaining counter to use against the Argentine junta, to force a commitment to end hostilities.

In London, the Ministry of Defence has denied claims published in the Sunday Times that seven members of the SAS are being secretly held as prisoners in Argentina. U.S. intelligence officials were reported as saying that they had been held for a month after being captured in the Argentine part of Tierra del Fuego.

British and Argentine medical staff help some of the more seriously wounded prisoners off the Canberra when she arrived at Puerto Madryn over the weekend. They were met by grim-faced Argentine officers who seemed close to tears. The prisoners, many of them teenagers, disembarked to a subdued welcome marked by a lack of ceremony. The area appeared to be totally sealed off to the public and no families could be seen

# Steel union in talks on new contract

By Richard Lambert in New York

LEADERS of the United Steel workers of America are to hold talks with major steel companies that could lead to a renegotiation of the union's current labour contract. This is not due to expire until August, 1983, but the steel companies have been pressing the union to agree to changes in view of the serious recession in the U.S. steel industry.

At a meeting on Friday, union leaders agreed to hold discussions "for the purpose of exploring possible solutions to the problems of our members and the industry."

The wording appears to have been kept deliberately vague because of the strong opposition among many steel workers to any suggestion of changes in the labour contract.

The level of employment in steel making has fallen to its lowest point since 1933. Out of about 400,000 workers in the industry, one third has been laid off. The pressure for changes in the labour contract follows precedents set by the motor manufacturers, airlines, transport and construction industries.

# Baxter cleared in IBM case

By Our New York Staff

THE U.S. Justice Department has ruled that there was no conflict of interest in the decision earlier this year by Mr William Baxter, the Assistant Attorney General, to drop a 13-year old anti-trust case against IBM.

As a result, a Federal Appeals Court has ordered a district judge to abandon his inquiries into the issue.

The question of a possible conflict of interest arose because Mr Baxter had done consulting work for IBM in a previous anti-trust case, and had not disclosed the fact on his appointment last year to the Justice Department.

# Turkey drops prosecutors

ANKARA — Military authorities have removed from their posts 42 senior martial law prosecutors and judges, including the colonel who led two cases against Mr Bulent Ecevit, the former Prime Minister, the official Gazette announced.

Colonel Nurettin Soyer, who was attached to the Ankara Martial Law Command as chief prosecutor at two separate cases against Mr Ecevit and for the mass trial of the exreme right-wing Nationalist Movement Party, is to be replaced by Colonel Zeki Egin.

Colonel Suleyman Takkeci, the Istanbul chief military prosecutor, who conducted the case at the trial of the now banned, left-wing Disk Trade Union Confederation and at several other mas trials of left-wing groups, was also removed.

There was no official explanation for the reshuffle.

Reuter

# EEC states stick to line on veto

By John Wyles in Luxembourg

THE RIGHT of individual EEC governments to block majority decisions on vital issues appeared to be alive and well last night—until a majority of governments again decided that a veto ought to be over-ridden, as they did last month in the majority vote against Britain on farm prices.

This paradoxical conclusion looked likely to emerge from a discussion by EEC Foreign Ministers in Luxembourg which was launched "to seek clarification" following last month's farm price vote by the UK's Mr Francis Pym.

The majority vote had shaken Britain's confidence in its ability to protect important national interests, said the foreign secretary, who urged a clear statement that the Luxembourg compromise of 1966 still underpinned EEC decision-making.

But last night's discussions mirrored the original political settlement of 1966 in that Ministers agreed to disagree. The 1966 compromise was based on the document in which France made it clear that EEC agreements should be unanimous once a member state said that an important national interest was at stake. The other five Community members at the time said that they would do their best to establish unanimity on an issue "within a reasonable time."

Last night, the UK, Denmark, Greece, France and Ireland all argued the right to veto a majority vote should still stand, although Ireland wanted the veto used sparingly and France without any "unfair" linkage of the kind Britain was alleged to have made last month between farm prices and a settlement of its EEC budget demands.

The other five Governments, however, argued last night that majority decision-making, in line with the Treaty of Rome should be the norm—although Italy is thought to have asserted that the Luxembourg compromise was still intact despite the farm price vote.

British officials appeared satisfied with the talks and concluded that "the Luxembourg compromise will apply in the future as it did in the past in the light of the discussions today."

But they also acknowledged that there could be no certainty that a majority of governments will not in future conclude that a national veto is being misapplied and over-ridden as they did on May 18.

This is partly because the farm price vote was a psychological breakthrough for the Community which will encourage some member states, particularly the Benelux, to seek a greater use of majority voting. In addition, governments may well be more scrupulous in the future about pleading important national interests in order to block an agreement.

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# Unions in Lisbon protest over tough economies

BY DIANA SMITH IN LISBON

PORTUGAL'S trade unions have reacted angrily to hefty increases in energy prices and a wage freeze that followed last week's 9.4 per cent devaluation of the escudo.

The communist - dominated CGPT union conferation has threatened "widespread labour agitation" early next month. In February and May, it called general strikes, but they received only partial support. The non-communist unions are also protesting.

At the weekend, Sr Joao Salgueiro, Foreign Minister, announced across the board increases in the prices of all oil derivitives with petrol rising to Es62½ a litre (£1.72 a gallon), a 7 per cent increase. Portugal imports about 8m tonnes of oil a year.

Sr Salgueiro also declared a freeze on all wages and prices until the end of July, promising particularly strict checks on the prices of essential goods. He also called for intensive energy saving efforts and said that the Government would offer new incentives to energy saving projects in industry.

Portugal's wage earners are among the lowest paid in Europe, averaging for semi-skilled industrial workers about Ec15,000 a month. But their energy and food bills rival European standards. The unions have been clamouring for wage increases that would re-establish their buying power lost in last year's 25 per cent inflation.

The Balsemao Government has imposed strict ceilings this year on the pay of government employees

# Trudeau rejects controls on wages and prices

BY RICHARD MACKIE IN TORONTO

MR PIERRE TRUDEAU, the Prime Minister, has contributed to the uncertainty about the Canadian Government's future economic policies by rejecting both mandatory controls on wages and prices and the harsh monetary approach pursued by Mrs Margaret Thatcher and President Ronald Reagan.

However, he told a gathering of Western Liberals in Banff, Alberta, that the Canadian federal and provincial governments must do something to reduce the country's expectations and rising incomes fuelling inflation.

The Prime Minister's remarks came after a week in which the Liberal Cabinet and the federal caucus held long discussions about ways to deal with the troubled economy. Mr Allan MacEachen, Finance Minister, has promised a statement on the economy

Canadian businessmen and economists hope the statement will indicate how the Government plans to deal with the apparently worsening national economic problems.

Last week the value of the Canadian dollar declined to 77.37 cents (U.S.), a fall of almost 2 cents. This occurred despite a rise of basic interest rates by three-quarters of a percentage point.

# Haig steps up attack on Soviet arms plans

By Anatole Kaletsky in Washington

MR ALEXANDER HAIG, the U.S. Secretary of State, intensified the Reagan Administration's attacks on the Soviet Union at a Press conference on Saturday after two days of talks in New York with Mr Andrei Gromyko, Soviet Foreign Minister.

Mr Haig revealed that the Soviet Union had started an "unprecedented" series of strategic weapons tests, including tests for nuclear warfare in space, within days of Mr Gromyko's strong speech in favour of nuclear disarmament at the United Nations last week. He said that the Soviet actions belied the words put forward by Mr Gromyko for the world audience at the UN.

Mr Haig refused to discuss the likelihood of a summit meeting between President Reagan and Mr Leonid Brezhnev, the Soviet leader. Officials in Washington have indicated recently that an autumn summit, which had been thought probable, may now be in question unless there is a good chance of its producing a "positive outcome." Mr Haig said only that both nations "agree that summitry for summitry's sake is to be avoided."

His denunciation of the Soviet missile tests last week—which he admitted had not breached any treaty—came only a day after the Reagan Administration's decision to intensify economic sanctions against the Soviet Union by banning sales of pipeline equipment by European companies producing machinery under licence from U.S. manufacturers.

This, in turn, followed a tougher than expected speech by President Reagan on Thursday at the UN special session on disarmament.

Since President Reagan's return from Europe, the Administration's line on East-West relations has hardened noticeably. Before the trip, the Administration's first priority had been to calm European fears about its strongly anti-Soviet stance.

# Afghan rebels inflict heavy losses

PESHAWAR — Rebels in the rugged Panjsher Valley north of Kabul have inflicted heavy casualties on attacking Soviet and Afghan Government troops and seized large quantities of arms from them, according to a French medical team that arrived in Pakistan from the area several days ago.

The four French doctors and a nurse said yesterday they had been trapped in heavy fighting in the valley, where they had been working for several months.

The valley has been the scene of several offensives against anti-Government rebels since mid-May which have produced claims of success by both sides.

The group, four women and a man, belong to a Paris-based humanitarian organisation, Aide Medicale Internationale.

They arrived in Peshawar, capital of Pakistan's north-west frontier province, on Saturday after about two weeks' trekking from Panjsher to the Pakistan border and five days' stop at the Pakistani border town of Parachinar.

Dr Laurence Lemonier said the rebels were successfully resisting Soviet and Afghan troops when the group left the area. Their morale was very high, she said.

Dr Lemonier said the rebels inflicted heavy casualties on Soviet and Afghan troops and seized large quantities of arms.

Describing the start of the offensive, she said the Russians landed commandos by helicopter in the centre of the valley and on mountainsides before making a tank-supported advance.

She said the rebels shot down several helicopters and told her they had killed 2,300 Soviet and Afghan troops after 18 days of fighting.

Civilian casualties were low because the people left the valley soon after the offensive and took shelter in mountains, she said.

Reuter

**Our Foreign Staff examines the impact of the recent U.S. subsidies ruling against Europe's steel industry, and the adjustments facing the EEC.**

## U.S. move a blow to Cockerill recovery

By Giles Merritt in Brussels

THE BELGIAN steel industry, which relied last year on the U.S. export market for 7.8 per cent of its total sales, sees the U.S. Commerce Department moves as a serious source of trouble. For Cockerill-Sambre, the sprawling state-owned steelmaker once described as "a coop for lame ducks," the likely imposition by the U.S. of preliminary 20-21 per cent countervailing duties could push the group from slide into slump.

With losses that in 1981 reached over BFr 17bn (£209m) and are, this year, headed on comparatively optimistic assumptions for BFr 12bn, Cockerill-Sambre says it will find the loss of its U.S. markets a heavy blow. Last year's U.S. sales of almost 360,000 tonnes represented a vital part of its 5.5m tonnes output, while in certain key products the group's average 7.1 per cent dependence on the U.S. rises sharply and in some products a fifth of output is earmarked for the U.S.

Not all Belgian steelmakers are so gravely threatened by the U.S. measures as Cockerill-Sambre. Forges de Clabecq, which relies on the U.S. market for an extraordinary 26.9 per cent of its sales of steel plate, has been hit only by a comparatively low 5.8 per cent preliminary duty. Yet there are fears that the drawn-out uncertainties surrounding the U.S. procedures could affect producers such as Clabecq as much as greatly more subsidised groups like Cockerill-Sambre.

# Hard thinking for steel makers

BY PAUL CHEESERIGHT IN LONDON AND GILES MERRITT IN BRUSSELS

THE AMOUNT of steel imported into the U.S. first passed the 10 per cent level in 1965. Since then, U.S. producers have waged a vigorous, if spasmodic, campaign against both European and Japanese manufacturers active in selling into the U.S. market.

The arguments have been broadly the same all along — that many foreign exporters were guilty of dumping steel at low prices and that they were often beneficiaries of state subsidies—in effect, they were competing unfairly with U.S. industry, which is all in private hands.

What is new about the latest action against EEC and several other foreign producers — the preliminary decision by the U.S. Commerce Department to impose countervailing duties mainly on UK, Belgian, French and Italian producers—has been the attempt to formally quantify the subsidies.

This stems from a U.S. decision to unilaterally interpret the new subsidies code embodied within the General Agreement on Tariffs and Trade.

Both Britain and the EEC have separately protested to the U.S. saying that the subsidisation currently going on was part of a vital programme to overhaul the European steel industry and make it more self-sustaining and competitive. It is argued that the Commerce Department move contradicts U.S. Government policy, which has been to back the Community's rationalisation programme.

It is also feared the move could damage attempts to liberalise trade, coming as it does during the building-up to the November Gatt ministerial meeting.

But despite its protests the EEC's free trade credentials are far from impeccable. The European Commission is currently in the throes of trying to negotiate a series of restrictive textile import deals with the 28 mainly Third World signatories of the Gatt-backed Multifibre Arrangement (MFA). It is increasingly beset by protectionist pressures from member states in agriculture, as much as in the industrial sector.

But it is the potential impact of the U.S. preliminary countervailing duties on the EEC's internal steel market that is the most immediate concern. U.S. officials stress that the new duties are liable to hit only 1.7m tonnes or less of the EEC's annual steel sales in the U.S. of some 6m tonnes. Brussels fears that the Community's recently renewed steel regime governing prices and production could collapse if Belgian, British, French and Italian producers attempted to unload their blocked U.S. shipments inside the EEC.

The first attempt to tackle the issue is to be made later this week when the 12 major steelmakers grouped in the Eurofer steel association meet to examine emergency proposals.

Eurofer will consider a burden sharing idea under which those EEC steelmakers unaffected by the U.S. duties would "swap" their non-U.S. export contracts against the U.S. market arrangement until recently enjoyed by those companies whose sales there are now effectively blocked.

It is an ingenious idea that will severely test EEC steelmakers' solidarity.

## W. Germany shares U.S. view on subsidies

BY JAMES BUCHAN IN BONN

NOT FOR nothing is *schadenfreude* a German and an untranslateable word. For the past seven years, West German producers have complained long and grimly about the state subsidies raining down on their European competitors and amounting to some DM 80bn since the start of the steel crisis in 1975, according to the producers' federation in Dusseldorf. In contrast, West German producers have received sums unlikely to be much in excess of DM 2-3bn. These have been described as "good" subsidies geared largely to restructuring activities.

The U.S. Commerce Department has now provided support for the German view in an unmistakable manner. The two largest concerns, Thyssen and Hoesch, are considered to be subsidy-free and are not liable to the Department of Commerce ruling on the need for a countervailing duty. Washington's estimate of the national average of subsidy, at 1.2 per cent of fob cost, is the lowest in the Community after the Netherlands.

"The Commerce Department's decision really underlines the different subsidy practice in the different Community countries," says the producer's federation, which is headed by Thyssen. "We've come out of it pretty well," said one expert, and there is a general feeling that the countervailing duties may not be levied at all on West German steel exports to the U.S., which amounted to 213,000 tonnes (excluding pipe) in the first quarter of this year. Meanwhile, the competitiveness of West German steel in the U.S. market looks set to improve sharply.

Of the six West German producers, excluding the two giants, assessed for government subsidies, only Roechling Burbach and Salzgitter were estimated to be receiving subsidies over 1 per cent of fob value. Roechling Burbach, which is the centre piece of the Bonn effort to restructure the Saarland industry, was assessed at 8.6 per cent but has negligible exports to the U.S.

The state-owned Salzgitter concern, which receives regional aid to compensate for its position close to the East German border, is a more troubling case because, though it was assessed at only 3.6 per cent, it depends on the U.S. market for 5-10 per cent of its sales of rolled steel, or about 3.3m tonnes last year. The concern said last week it was uncertain of the outcome but was continuing deliveries. Salzgitter lost DM 388m last year.

In the longer term, there is concern among the producers and in Bonn that a widening trade conflict could only have severe effects in West Germany, which is heavily dependent on export trade, and which has just seen its currency valued upwards within the European Monetary System.

## Italsider fears EEC pressure on own market

By Rupert Cornwell in Rome

THE ITALIAN steel industry is worried above all by the indirect effects of the preliminary move by the U.S. Government to impose countervailing duties on steel imports from a number of countries.

The Washington authorities have singled out, among Italian producers, Italsider, the troubled subsidiary of Finsider, the steel holding company, in turn controlled by the public sector conglomerate IRI. Italsider will be liable for countervailing duties of 18 per cent, equivalent to the level of subsidies the Commerce Department estimates the company receives from the Italian Government.

In fact, Italsider points out, the quantities of hot and cold rolled strip and plate covered by the measure are very small. The company is fearful of the possible side effects caused by the action taken against French and Belgian producers, whose deliveries to the U.S., it says, are much larger.

Italsider is worried that its Community rivals may try to unload some of the steel otherwise destined for the U.S. onto the Italian market. Italsider, much of whose activity has been hived off into a new subsidiary Nuova Italsider, is currently engaged in a drive to restore its fortunes, after 1981's record loss of L1,698bn (£730m).

However, one of its biggest problems has been the high level of foreign imports, equivalent to around 40 per cent of total 1981 national output of 25.8m tonnes.

## France to slash its steel exports

BY TERRY DODSWORTH IN PARIS

THE FRENCH steel industry, dominated by wo nationalised companies, Usinor and Sacilor, has expressed indignation to the U.S. because of action on steel imports.

According to the U.S. Commerce Department, the two French producers sell some of the most heavily subsidised steel in the U.S. The Department's study said that Sacilor was subsidised at a little over 30 per cent on its U.S. selling price, and Usinor at a little more than 20 per cent.

In a strongly-worded riposte to these accusations, the French manufacturers attack the countervailing duties imposed by the Americans as "iniquitous." U.S. action was inspired, the statement adds, by a form of protectionism that "could have extremely damaging consequences for everyone," and which was particularly inappropriate coming from a country that was running an overall trade surplus of FFr 25bn (£2.1bn) with France.

The French companies are not now proposing any independent response to the U.S. moves. They say the U.S. action is not justified under Gatt regulations, and they will go along with any co-ordinated European action undertaken by Eurofer, the European steel producers' assosiation, within the framework of Gatt.

In the meantime, exports to the U.S. will be cut to a minimum because of the high penalties to be imposed by the Americans. These cuts will merely accelerate voluntary reductions that have already bitten deeply into French sales in the U.S., running so far this year at only about 20,000 tonnes a month against 80,000 to 100,000 a month last year.

There is no doubt the French are going to be hit hard by the U.S. action. The American market accounts for almost 5 per cent of France's current steel production, and for many years has been taking between 1m and 1.2m tonnes. Only West Germany and Italy, accounting for about 1.5m tonnes each, buy more French steel.

Last year there was a surge in French exports to the U.S., but this was only because 1980 was depressed, because of the U.S. Steel threat of anti-dumping action. French sales for 1981 amounted to 1.01m tonnes, a little less than in 1979.

Meanwhile, the French industry is pushing ahead with further Government-aided rationalisation plans to add to the reorganisation announced in 1978. According to Government plans published last week, more than FFr 20bn is to be pumped into Usinor and Sacilor over the next four years in a variety of projects aimed at cleaning up their balance sheets, covering losses, and modernising plant.

**Ian Roger adds:** British Steel Corporation was not surprised to be singled out as the most heavily subsidised European steel producer.

Two years ago, Mr Ian MacGregor, the chairman, said that the corporation was bankrupt and since then the British Government has agreed to pump in £880m in aid and to write off £3.5bn in capital and loans.

But BSC officials are bitter that they have been made to look the worst offenders in last year's massive attack on the U.S. market by world steelmakers.

In fact, BSC's 0.4m tonnes of steel delivered to the U.S. last year was well down on the traditional level of shipments.

## UK supply vessels reassured of market access to Norway

BY FAY GJESTER IN OSLO

UK SUPPLY boat operators need fear no protectionist barriers on the Norwegian market, Mr Iain Sproat, Britain's Shiping Minister, told a press conference in Oslo.

Earlier last week Mr Sproat expressed concern about the "grotesque imbalance" in the number of offshore vessels working each country's exploration areas. He promised to press for more UK ships to be allowed into Norway's sector of the North Sea. But at a press conference Friday, he took a completely different line after talks with his Norwegian opposite number, Mr Arne Skauge.

Mr Sproat said that Mr Skauge—who had been "very open and forthcoming"—had convinced him the Norwegians practised no protectionism.

"Both our countries have a keen interest in advocating free and open trading, because we fear the growing trend towards protectionism in shipping," Sproat declared.

The two Ministers identified two factors which could bias oil companies in favour of hiring Norwegian supply ships for work in Norwegian waters. One was the belief—quite mistaken, according to Mr Skauge—that by "hiring Norwegian" the companies might win favour with Norway's authorities.

The other was the possible existence of differences in technical standards for specifications. On this latter question, they had agreed it would be a good idea to let a joint working group

● The European Parliament Friday endorsed proposals for a European Coastal Charter aimed at tightening controls on shipping and pollution on the coastline of Western Europe, AP reports from Strasbourg. The charter, drawn up by the Conference of Peripheral Maritime Regions, will co-ordinate pollution research being done in various centres and launch pilot schemes financed in part by the EEC for protecting the coastal environment.

SHIPPING REPORT

## Slight rise in tanker activity

BY ANDREW FISHER, SHIPPING CORRESPONDENT

MORE BUSINESS was done in the tanker market last week, but rates did not show any marked upturn since there is still a surplus of vessels. In dry cargo markets, the trend was quite clearly downwards from levels which were already depressed.

E. A. Gibson said that with hostilities in the Gulf lessening somewhat, the Japanese Seamen's Union was allowing its members to go to Kharg Island, off Iran.

Several VLCCs were fixed from here last week, mostly with part cargoes. One of 220,000 tons was secured at Worldscale 26, reportedly with options for either East or West, with another of 205,000 tons to the East at Worldscale 22.

Gibson also said that two 210,000 tonners, each with a part cargo of 125,000 tons, chartered to go through the Suez Canal received Worldscale 52½. On the more medium-sized units, a 125,000 tonner carrying 100,000 tons to Italy was paid Worldscale 50.

The West African market has come back into the running as a major chartering area, according to Galbraith Wrightson. Previously, ships which have tended to specialise in cargoes from there have had to switch to the Mediterranean and European markets, thus adding to the tonnage surplus there.

*Dry Cargo* markets simply became more dismal last week. Denholm Coates commented that "the storm signals must have been hoisted in every dry cargo owner's boardroom by the falls of the last few weeks." Grain rates from the U.S. to Europe and Japan dropped even further.

## German group in $98m Indonesian deal

BY RICHARD COWPER IN JAKARTA

MANNESMAN DEMAG of West Germany is set to win a contract to design, engineer and construct a $98m tin plate mill for the Indonesian Government.

The engineering concern has been awarded a letter of intent and a formal contract is expected to be signed shortly. The new plant is just one part of an estimated $1.3bn expansion of Indonesia's Krakatau steel complex at Cilegon in West Java.

The West German company won the contract against strong competition from Davy McKee of Great Britain and Nippon Steel of Japan. While Mannesman is the main contractor the Japanese manufacturing company of Hitachi Zosen will supply plant equipment, some 80 per cent of which is expected to come from Japan.

Construction of the 120,000 tonne plant is expected to start later this year and is to be completed in 1985. The tin plate mill site is 110 km west of Jakarta.



## World Economic Indicators

TRADE STATISTICS

| | | Apr. '82 | Mar. '82 | Feb. '82 | Apr. '81 |
|---|---|---|---|---|---|
| U.S. $bn | Exports | 17.840 | 18.602 | 18.704 | 19.786 |
| | Imports | 18.200 | 20.349 | 19.090 | 22.249 |
| | Balance | −0.360 | −1.747 | −0.387 | −2.463 |
| W. Germany DMbn | Exports | 36.50 | 41.77 | 34.50 | 33.57 |
| | Imports | 33.06 | 35.36 | 30.80 | 30.27 |
| | Balance | +3.44 | +6.41 | +3.70 | +3.30 |
| France FFrbn | Exports | 49.47 | 50.73 | 51.55 | 47.45 |
| | Imports | 59.63 | 55.18 | 56.83 | 50.29 |
| | Balance | −10.16 | −4.45 | −5.28 | −2.84 |
| Italy Lirebn | Exports | 8,847 | 8,923 | 7,585 | 7,257 |
| | Imports | 10,163 | 10,040 | 10,516 | 9,616 |
| | Balance | −1,316 | −1,107 | −2,931 | −2,359 |
| Japan $bn | Exports | 12.1 | 12.140 | 10.246 | 12.622 |
| | Imports | 10.7 | 12.130 | 11.045 | 11.105 |
| | Balance | +1.4 | +0.010 | −0.799 | +1.517 |
| | | Mar. '82 | Feb. '82 | Jan. '82 | Mar. '81 |
| UK £bn | Exports | 4.584 | 4.433 | 4.258 | 3.948 |
| | Imports | 4.362 | 4.279 | 4.410 | 3.302 |
| | Balance | +0.222 | +0.154 | −0.152 | +0.646 |
| | | Feb. '82 | Jan. '82 | Dec. '81 | Feb. '81 |
| Belgium BFrbn | Exports | 180.379 | 153.981 | 192.410 | 158.000 |
| | Imports | 188.931 | 184.769 | 194.249 | 188.840 |
| | Balance | −8.552 | −30.788 | −1.839 | −30.840 |
| Netherlands Flbn | Exports | 14.600 | 14.600 | 14.904 | 13.108 |
| | Imports | 13.000 | 12.400 | 14.683 | 12.885 |
| | Balance | +1.600 | +2.200 | +0.221 | +0.223 |

# Specialists sought by co-operative agency

BY JOHN ELLIOTT, INDUSTRIAL EDITOR

FOUR EXECUTIVES with experience of marketing and accountancy are being sought on secondment from large companies by the Government's Co-operative Development Agency.

Mr George Jones, the agency's new director, himself on secondment from Unilever, has written to 12 large companies asking for help. He believes worker co-operatives lack marketing and accountancy skills in particular and that his agency should help plug the gap.

The number of co-ops in the UK has increased rapidly in the past few years. There are now about 500 compared with more than 300 in 1980. Many have been founded by people who have been made redundant and most are very small, averaging eight or nine employees.

Mr Jones toured 30 co-ops and found them especially effective in service and highly skilled areas where there is a high labour content and a need for good quality work.

"The quality of goods manufactured is very high," he says. "A pride of ownership seems to come through as the worker realises that bad goods drive away customers.

"People are sitting on top of a profit and loss account so they get a rapid education in the realities of business that you cannot get with a traditional workforce. But the problem is that, unlike most traditional small businesses, those setting them up usually have only one production-oriented skill and no knowledge of marketing or other management techniques."

But it is the quality of work and the personal commitment which impress Mr Jones. He cites as examples a blouse manufacturer in Wales exporting goods to Germany, a raincoat manufacturer in Bradford selling to Aquascutum, a wooden pattern maker in Newcastle producing highly intricate work at a profit and a carpet manufacturer in Dundee producing goods for Sanderson and for hotels. Several of these are relatively large businesses employing 30 people and several were rescued from businesses under conventional private sector owners.

Mr Jones, 53, started his new job in March having joined Unilever 30 years ago as a clerk. He specialised in corporate planning and marketing

Mr George Jones

and was a director of BOCM Silcock and chairman of Unitrition, both animal foodstuffs companies. Unilever is subsidising his salary which is well above the Civil Service assistant secretary's level of about £20,000 a year fixed for the job.

At Unilever Mr Jones had experience of employee participation and became interested in expanding the concept.

"My philosophy is of a mixed economy with all forms of organisation contributing, mixing private and State ownership and now co-operatives. I believe that the more democracy you can get into a business, the better it will be because people do have something to contribute. But I'm not yet sure how it can work on a large scale for co-operatives in this country, though it has been done in Italy and Spain."

Mr Jones's appointment is part of a move to turn the agency into an effective organisation following a board shake-up last year. The Government then gave it a three-year lease of life with a £200,000-a-year budget and told it become a more business-like organisation.

The agency was set up in 1979 with all-party political support by the last Labour Government, following years of debate within the co-operative wing of the Labour Movement about the need for some sort of promotional organisation.

It has concentrated on worker co-operatives but has had an extremely limited impact. Sir Keith Joseph, then Industry Secretary, decided last summer that it should be given until roughly the end of this Parliament to prove itself.

A new board was appointed, chaired by Mr Ralph Woolf, managing director of Scott Bader, a Northamptonshire chemical company which has been owned by its employees for about 20 years. The board includes Mr George Wright, secretary of the Wales TUC, who is helping to found a co-op development centre in Wales along the lines of the Mondragon community of co-ops in the Basque area of Spain.

The agency has a staff of 12 and will soon gain its first secondee, Mr Ian Brierley, an economist from the Co-operative Bank who has considerable practical experience.

Mr Jones's aim is to persuade the occasionally warring factions in the Co-op movement to work together to improve the viability of new enterprises.

He will stress that viability rather than lack of finance is the primary problem. "In practice you can't solve things by just shoving money at them. You need to get the right skills to create the products and markets which will then attract the finance. Then you're on your way to viability."

# Birkenhead cargo service to end

BY OUR LIVERPOOL CORRESPONDENT

THE MERSEY Docks and Harbour Company is to withdraw its cargo-handling operations for conventional liner services from Birkenhead at the end of the month.

The decision, which has the backing of Mr David Howell, the Transport Secretary, came as no surprise to the waterfront. It is in line with the dock company's rationalisation programme, aimed to achieve financial stability by the end of the year.

Sir John Page, the company's chairman, stressed that the decision would not mean the closure to other stevedore companies of Birkenhead docks where £400,000 has been spent on improvements to the pumping equipment which maintains the water level in the enclosed docks.

## Transfer

The Pacific Steam Navigation Company, the main user of the Victorian dock complex at Birkenhead for its South American services, is increasing its volume of cargo through the port and will now be accommodated in Canada Dock at Liverpool.

The decision will mean the transfer of 382 dockers and 180 other employees to the Liverpool side of the river, while another 125 dock company employees will continue to work at Birkenhead.

Mr Howell has indicated he accepts that the dock company has a strong commercial case for ending its own cargo-handling operations at Birkenhead as quickly as possible.

# Lager plant for Toxteth

BY OUR LIVERPOOL CORRESPONDENT

HIGSONS, the Merseyside brewer, is to invest more than £1.7m on a new lager plant on the company's main site in Toxteth, Liverpool, helped by funds from the Liverpool Inner City Partnership.

The plant will be housed in a conversion of the old brewhouse. Higsons has spent £4.1m on a new brewhouse which will be formally opened on Wednesday although it is already in production. Higsons had planned originally to pause between the two investment projects but decided to start work on the lager plant to meet demand.

Higsons made a pre-tax profit of £426,000 in the half year to April 2 but has been affected by the depressed state of the Merseyside economy.

● The collapse in beer consumption between January and March last year and the same three months of 1982 was probably *bigger than the fall in production* suggests, Public Attitude Surveys says in a report published today. Production fell 7.5 per cent compared with the same three months in 1981 but the volume drunk was 11.5 per cent down on a year before.



# Private parcels 'threat to P.O. jobs'

By David Goodhart, Labour Staff

THOMPSON National Transport, which launches today a private parcel delivery service, called Homefast, would pose a big threat to Royal Mail parcels if it were to reach its target of 1m parcels a week by next year, according to a confidential Post Office report on the company.

Royal Mail traffic could decline by up to 35 per cent, the report says. The Post Office now delivers about 175m parcels a year, and has more than 7,000 major contract customers on its books. But Post Office researchers believe that Homefast, which is initially aimed at the large mail-order business, could threaten the public body's whole parcel contract business.

A joint working party has been set up by the Post Office and the Union of Communication Workers to counter the threat from Thompson, a company with an annual turnover of about £600m and based in Australia.

The union fears that most of the 17,000 jobs in the Post Office parcels service could be in jeopardy, and is backing Post Office attempts to improve services and hang on to customers. After a loss of £2.8m in 1980-81, the Post Office parcels service made a £7m profit in 1981-82.

Mr John Carney, general manager of Homefast, described the Post Office calculations as hysterical over-reaction. "We are *aiming* for a traffic of about 10m parcels in the first year of trading, which is a tiny fraction of the business," he said.

Thompson National Transport has launched a successful UK overnight service (TNT Overnite) and a 48-hour, door-to-door service to the U.S. (TNT Suparush).

Homefast will guarantee a five-day delivery service—longer than the claimed average of three days for Royal Mail—but plans to make household deliveries in the evenings, when many people are more likely to be at home.

# Crime risk in small building societies, says Alfreton report

BY DUNCAN CAMPBELL-SMITH

SERIOUS RISKS of fraud and embezzlement confront the public in dealings with small building societies, according to the findings of a committee of inquiry submitted to the Institute of Chartered Accountants.

Societies with about eight staff or fewer will have "the greatest difficulty" in maintaining adequate systems of control and inspection over their own affairs, it says. This will in practice entail situations where "there is little to hinder the progress of a dishonest chief executive."

Mr David Hobson, who chaired the committee and is senior partner of the accounting firm Coopers and Lybrand, said yesterday that this was a conclusion "of considerable importance."

His committee had consulted with the Chief Registrar of Friendly Societies, who has supervision of the sector, and given him a draft of its comments on the problem of small societies.

The Registrar expressed no objections, said Mr Hobson, and offered no official reaction. The committee had had no contact with the Building Societies' Association, which the committee saw as having no standing in the context of the inquiry.

The immediate reasons for the inquiry, undertaken at the request of the chartered accountancy profession's joint disciplinary scheme executive, was the case of Alfreton Building Society.

The Alfreton was a tiny society, now merged into the Britannia Building Society. Between 1975 and 1980 it was defrauded of £191,072 by its own secretary, convicted in November of theft, false accounting and forgery.

The inquiry was set up to look into the conduct of three accountants involved in the Alfreton's affairs, two as external auditors and the third as its chairman throughout the period in question.

The report criticised certain aspects of their work for the Alfreton, but in all three cases concluded that no adverse findings on their conduct and competence were justified.

The vulnerability of the Alfreton to the criminal activities of its then secretary prompted the committee to draw a wider lesson.

# Pension accounts advice

BY DUNCAN CAMPBELL-SMITH

GUIDANCE on a desirable form of published annual accounts for pension schemes is suggested in a discussion paper released today by the Accounting Standards Committee, the internal watchdog of the accountancy profession.

Pension schemes are not at present obliged to prepare formal accounts, let alone publish them. The discussion paper sets out a number of detailed recommendations and is widely expected to stir up further controversy in an area already vexed by long-standing disputes between the accountancy and actuarial professions.

The discussion paper is intended eventually to lead to an exposure draft of a new accounting standard. Meanwhile, a working party under the standards committee is looking into the treatment of pension costs in company accounts. The two developments together represent an important initiative by the accountancy profession.

Two points in the discussion paper are expected to draw particular comment from the actuaries. The first considers whether a pension scheme's actuary should be required to provide a simple *statement* of approval for an annual report or whether he should have to give more detailed actuarial information about its general position.

Second, the paper discusses—with a carefully observed balance of views—whether or not actuarial practices could sensibly be made subject to standardisation.

Comments on the paper are requested by December 31.

*Pension Scheme Accounts—a Discussion Paper*, £2.50 *post-free from The Publications Department, PO Box 433, Chartered Accountants' Hall Moorgate Place, London* EC2P 2BJ.

# Data protection report criticised

By Kenneth Gooding

STRONG criticism of the Government's White Paper on data protection is contained in a paper from the Institute of Daa Processing Management *(IDPM) released at the week*-end.

The Government was wrong to reject hte establishment of an independent Data Protection Authoriy because, "since he Government is the largest user of computers in the country, nothing less than genuine independence of the administering authority is going to be acceptable."

It was also wrong not to include manual data systems in the proposed legislation, says the IDPM.

# Gower plans attacked

BY JOHN MOORE, CITY CORRESPONDENT

MORE CITY opposition has been voiced against a report on investor protection, commissioned by the Department of Trade, which proposed sweeping reforms in the system of regulation.

The City capital markets committee, which represents a wide range of interests, has come out against proposals which it says are "bound to be disruptive and expensive."

The committee comprises representatives from the merchant banks, unit trusts, insurance companies, the stock market, clearing banks, accountancy and the law.

It says that changes discussed in the report prepared by Professor Jim Gower, adviser to the Department of Trade on company law, should be avoided "unless it is shown that they are really needed to protect investors or to promote competition in their interests."

# TI Raleigh and OFT compromise on retail policy

BY DAVID CHURCHILL, CONSUMER AFFAIRS CORRESPONDENT

A COMPROMISE in the long running dispute over whether TI Raleigh Industries should be forced to sell all brands of its popular bicycles to cutprice retailers has been reached between the company and the Office of Fair Trading.

The OFT is expected to announce shortly that it has received undertakings from Raleigh to keep its future trading practices in line with a Monopolies and Mergers Commission report published last December.

But the OFT had sought undertakings from the company which were significantly stronger than those suggested by the Commission.

The move will bring to an end a series of investigations which have taken nearly two years to complete. They were the first to be made into anti-competitive trading practices under the terms of the Competition Act, 1980, as well as being regarded as an important test case in the issue of a manufacturer's rights to refuse to supply cut-price retailers.

The company's refusal to supply cut-price stores such as Tesco and Argos with its main-brand bicycles had first attracted the attention of the OFT in 1980 when the new Competition Act was coming into operation.

Raleigh maintained that its sales distribution policy was in the best interests of both its main outlets—over 7,000 small bicycle dealers—as well as its customers, since these shops operated an important after-sales service which the cut-price stores did not provide. This was also important in keeping bicycles in road-worthy condition, Raleigh maintained.

But after a lengthy investigation the OFT concluded that Raleigh's policy restricted competition. The Monopolies Commission was then asked to decide whether this was or was not in the public interest.

The Commission ruled last December that it regarded Raleigh's distribution policy "as prima facie against the public interest." This was the judgment the OFT had been seeking, since it would help it to stop other cases of manufacturers' refusal to supply certain retailers.

But the Commission seriously weakened its central conclusion by suggesting that Raleigh need not necessarily supply cut-price retailers with bicycles carrying the "Raleigh" brand name, although it should supply other Raleigh-made brands such as "BSA," "Hercules" and "Triumph."

The OFT is now understood to have decided to accept these undertakings rather than to continue wrangling with Raleigh, but it is now likely to turn its attention to other cases of refusal to supply in the hope of achieving a more satisfactory outcome.

# Economic line 'means 3m jobless to end of century'

BY MAX WILKINSON

UNEMPLOYMENT will remain above 3m until the end of the century if the present economic strategy continues, says Cambridge Econometrics in its latest projection today.

While no economic forecast can claim very reliable predictions over so long a period, the Cambridge forecast provides a baseline for possibilities on present trends, barring big political or economic upheavals.

The basic assumptions for the forecast are that Government spending would rise by 1½ per cent a year from 1984 on, average earnings would increase by about 10 per cent, and price inflation would stay at about 9 per cent a year.

It also assumes that exports will grow at 5 to 6 per cent a year for six years, and thereafter at an annual rate of about 4 per cent. Imports are assumed to grow rather faster than exports until the mid-1980s and then rather more slowly.

On these assumptions, the group predicts that jobs would increase rather slowly—by only about 1¼m in the last 15 years of the century.

This would barely keep pace with the increasing number of people of working age, so that unemployment would remain at around 3.2m, a figure expected to be reached this year.

The group expects output to grow by 1.5 per cent this year, rising to 3 per cent next year.

● In its latest Monetary Bulletin Greenwell, the broker, says a further fall in interest rates can be expected, unless sterling's effective exchange rate weakens or the sterling-dollar rate falls very sharply. Recent dollar strengthening is balanced to some extent by weakness of commodity prices, and the effect of a strong dollar on UK costs has therefore not been as great as it might have been.

*Cambridge Econometrics, 21, St. Andrews Street, Cambridge.*

# Booms 'lift black economy'

BY ROBIN PAULEY

THE BLACK economy, which is often assumed to flourish during recession and high unemployment, may in fact be strongest in boom years when the formal economy is tight, a new study suggests.

In a paper which aims to assess the size of the UK black economy — transactions which evade tax—Mr Michael O'Higgins, of Bath University Centre for Fiscal Studies, says the Inland Revenue estimate of 6 to 8 per cent gross domestic product appears to be the most likely figure, although guesses range from 3 to 15 per cent. On the Inland Revenue's basis, the black economy's gross product would be about £15bn a year, making a net tax loss of £4bn.

An analysis of the hidden economy shows that it grew rapidly during the years of rapid economic growth in the early 1970s and has grown relatively little since the late 1970s, although public criticism of taxation levels peaked during the late 1970s.

Mr O'Higgins says the black economy appears to have grown rapidly in the three periods of fastest economic growth since the 1950s—1959-61, 1963-65 and 1970-73. Since 1957, unemployment has been less than 2 per cent only in 1960-61 and 1964-66, and the lowest rate of unemployment in the 1970s was in 1973-74 —all within the busiest black economy periods.

About three-quarters of the hidden economy appear to occur in self-employment, with the construction industry having by far the highest levels of tax evasion.

# National Savings growth

BY ERIC SHORT

THERE was a marked improvement in National Savings in May, following poor April figures. Net receipts were £35m up on those of the previous month, at £124.5m.

But that was still only half the monthly average needed to be on course for the Treasury's goal of £3bn for 1982-83. The total net contribution to funding, in the first two months overall, amounted to only £214m.

For once, investment in the index-linked National Savings Certificates, still known as Grannie Bonds, was dull, amounting to £79.4m in May. Sales had been more than £100m for several successive months.



# Inquiry into Midlands motorway repairs

INQUIRIES into whether repairs to Midlands motorways since the 1970s "should or could have been carried out in a more effective way" are being made by the Department of Transport.

Much of the Midlands motorway network is on raised sections, and repairs had to be made many years earlier than expected.

Part of the Department's inquiry will involve the sealant coatings used to cover 5,000 bearing plinths under contracts worth £460,000.

The Department wants to know if West Midlands County Council, which acted as its construction agent, altered a specification for the application of a final protective coating from seven to two days.

The cut would have meant contractors having to use expensive scaffolding for much less time, thus saving many thousands of pounds.

Recent failures of the coating, causing further repair work, brought the Department's concern to a head, the department said yesterday.

Picking winners and making them pay—**John Elliott** examines the SDP's latest policy

# Pouring oil on the wheels of industry

A POLICY in which industrialists would help ministers and civil servants pick potential winners that need state financial support was launched at the weekend by the Social Democratic Party.

The main proposals of this cautiously interventionist policy are in a discussion document in which the SDP calls for a scheme of cheap loans for special industrial projects, and the formation of a new ministerial committee on industry headed by the Prime Minister and advised by a team of industrialists.

## Training

State aid would be provided in key sectors, and the British Technology Group (BTG) would be enlarged. Small businesses would receive special help.

The National Economic Development Council and its office would be enlarged slightly and given a more industrial role.

Training in companies would be encouraged through a remissable tax system. In industries where training boards are abolished, companies spending more than a set amount on training would receive a government rebate, while those spending less would be taxed.

On competition policy, the onus of proof on monopolies would be reversed, so that companies planning a merger would have to demonstrate the advantage to the public interest of such a move. New methods of monitoring, nationalised industries which have a monopoly would also be developed, possibly with the creation of a series of holding companies standing between the government and the industries.

Each of the holding companies would be in overall charge of running a number of the industries in certain sectors, such as transport and energy.

The policy differs little in many areas from an amalgamation of the Government's approach under Mr Patrick Jenkin, Industry Secretary, and the industrial strategy developed in the second half of the last Labour government's term of office.

But the Social Democrat leaders say they have an advantage in that they would consciously start out with such proposals. "This is a unique policy document because it won't need a U-turn within two years to make sense of it," said Mr David Sainsbury, finance director of J. Sainsbury, and a member of the SDP national steering committee.

Mr Sainsbury helped draft the proposals under the chairmanship of Mr William Rodgers, one of the SDP's founders.

Mr Rodgers said: "We envisage a partnership between the Government and industry and the City, to include commerce in the widest sense.

"Our aim is to make the economic and industrial regeneration of Britain the central and first task of an Alliance government. We aim to make the mixed economy work—neither of the main parties do that."

## Panel

A policy analysis unit of civil servants and traders would back up the Prime Minister's new industrial committee. The unit would be similar to the information technology unit created last year in the Cabinet Office.

An advisory panel for industrial policy is proposed to provide an interface between government and industry. It would consist of 10 to 12 "senior people from industry" including leaders of the British Technology Group and of an Industrial Credit Corporation, which might be set up to run the cheap credit scheme.

This panel would provide advice and support for the Government similar to that supplied now on high technology by the Advisory Council on Advanced Research and Development (ACARD).

The NEDC would be used as a "national forum in which the principles of the industrial strategy can be debated and general agreement secured."

Its primary role would be to debate industrial policy, but it may also discuss pay. The document says its members would include the long term savings institutions and the chairmen of the BTG and Industrial Credit Corporation.

The National Economic Development Office would be given more responsibility for monitoring industrial and trading performance, including publication of an annual report "assessing the immediate past" and presenting short and medium-term forecasts.

These various committees and organisations would help develop "a view about the strategic situation and prospects in major sectors of industry."

This would lead to projects "deemed worthy of support" being picked for help in the industrial credit scheme, which might provide interest relief grants and subsidised loans 5 per cent lower than current interest rates.

The prospects gauged for sectors of industry would be used to "inform all government policies relating to the success of industry, not only those directly impinging on it, such as public purchasing, funds for investment, assistance for research and development, and training, but also more generally touching for example on the orientation of the education system."

"The strategy must be formulated and implemented on the basis of partnership between the different interests involved," says the document.

"There should be no attempt to draw up a grand plan in the sense of a detailed blueprint for the development of all parts of the industrial economy, but rather a gradual development of a policy within each specific sector, informed by an overall view of the sort of developments to be encouraged."

## Selectivity

There would need to be an element of "selectivity in the industrial strategy, though in terms of generic technologies rather than traditional product areas."

These remarks show how the SDP is trying to develop an overall industrial policy without appearing too interventionist and without being accused of planning to use ministers and civil servants to pick industrial projects which would be flooded with government funds.

But Mr Sainsbury admitted when the document was launched that the detailed operation of aid schemes might be little different in practice from those run by the Industry Department in areas such as robotics.

*Partnership for Prosperity. A strategy for industrial success. Green Paper No. 2. SDP, 4 Cowley Street, London, SW1.*

*A copy of this Prospectus (having attached thereto the documents specified below under 'Miscellaneous') has been delivered to the Registrar of Companies in England for registration. This document includes particulars given in compliance with the Regulations of the Council of The Stock Exchange for the purpose of giving information with regard to Forexfund Limited ('the Company'). The Directors have taken all reasonable care to ensure that the facts stated herein are true and accurate in all material respects and that there are no other material facts the omission of which would make misleading any statement herein whether of fact or of opinion. All the Directors accept responsibility accordingly. Application has been made to the Council of The Stock Exchange for the whole of the share capital of the Company to be admitted to the Official List. The subscription lists for the shares now being offered will open at 10 a.m. (Bermuda time) on Friday, 9th July 1982 and may be closed at any time thereafter on the same day. Applications should be sent so as to be received not later than 10 a.m. (Bermuda time) on that day.*

# FOREXFUND LIMITED

*(incorporated in and under the laws of Bermuda with limited liability)*

## Offer of 1,000,000 shares of US$1 par value each at an issue price of US$10 per share

**payable in full on application**

**The issue price includes an initial charge of 50 cents per share payable to Securities Selection Limited ('the Manager') but reallowance will be made to applicants by the Manager at the rates specified below under 'Issue of Shares' on applications for 10,000 shares or more. The Manager is aware that applications will be made for 100,000 shares, which will be allotted in full.**

The distribution of this document and the offering of shares may be restricted in certain jurisdictions; persons into whose possession this document comes are required by the Company to inform themselves of and to observe any such restrictions. In particular this document may not be used for the purpose of an offer or solicitation in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised.

The shares have not been registered under the United States Securities Act of 1933 and may not be directly or indirectly offered or sold in the United States of America, or any of its territories or possessions or areas subject to its jurisdiction, or to or for the benefit of a United States person. For this purpose, United States person includes a national or resident of the United States of America, a partnership organised or existing in any state, territory or possession of the United States of America and a corporation organised under the laws of the United States of America or of any state, territory or possession thereof. The attention of United States persons is drawn to the paragraph below headed 'Restrictions on Holdings' and the compulsory redemption powers of the Company mentioned therein.

All references to 'dollars' and the sign '$' in this document are, except where the context otherwise requires, to the currency of the United States of America.

Any information given or representations made by any dealer, salesman or other person and not contained herein should be regarded as unauthorised and should accordingly not be relied upon. Neither the delivery of this document nor the offer, issue or sale of shares shall, under any circumstances, constitute a representation that the information given in this document is correct as of any time subsequent to the date hereof. This document is issued solely for the purpose of the initial offer of 1,000,000 shares in the Company. A separate prospectus will be issued for subsequent offers and copies thereof will be available from the Manager.

Potential subscribers of shares in the Company should inform themselves as to (a) the possible tax consequences, (b) the legal requirements and (c) any foreign exchange restrictions or exchange control requirements which they might encounter under the laws of the countries of their citizenship, residence or domicile and which might be relevant to the subscription, holding and disposal of shares in the Company.

## Directors

GESTO CHARLES RANALD *(President and Chairman)*, L'Annonciade, Avenue de L'Annonciade, M.C. Monaco

NORMAN JAMES HOLBROW *(Vice-President)*, Bank of Bermuda Building, Front Street, Hamilton, Bermuda.

JOHN GWILYM HEMINGWAY, 19 Boulevard de Suisse, M.C. Monaco.

ANTHONY EVELYN HEPPER, 70 Eaton Place, London SW1X 8AT.

WILLIAM DONALD THOMSON, Bank of Bermuda Building, Front Street, Hamilton, Bermuda.

**Manager**
Securities Selection Limited,
Bank of Bermuda Building,
Front Street, Hamilton, Bermuda.

**Stockbrokers**
Hoare Govett Limited,
Heron House,
319/325 High Holborn,
London WC1V 7PB.

**Investment Advisers**
Drayton Montagu Portfolio Management Limited,
117, Old Broad Street,
London EC2N 1AL.

**Auditors**
Peat, Marwick, Mitchell & Co.,
Vallis Building,
Hamilton, Bermuda.

**Custodian, Bankers, Registrar and Transfer Agent**
The Bank of Bermuda Limited,
Bank of Bermuda Building,
Front Street,
Hamilton, Bermuda.

**Secretary and Registered Office**
Sylvia G. Marshall,
Bank of Bermuda Building,
Front Street,
Hamilton, Bermuda.

**Legal Advisers for the Company**
Conyers, Dill & Pearman,
Clarendon House,
Church Street,
Hamilton, Bermuda.

**Subscription and Redemption Agents**
The Bank of Bermuda (Guernsey) Limited,
Bermuda House,
St. Julian's Avenue,
St. Peter Port, Guernsey,
Channel Islands.

**Legal Advisers for the Issue**
Slaughter and May,
35 Basinghall Street,
London EC2V 5DB.

### Introduction

*The Company*
The Company was incorporated with limited liability in and under the laws of Bermuda on 3rd June 1982. The Company is an open-ended investment company in that it may issue and redeem its shares at prices based on the value of its net assets.

*Purpose*
The purpose of the Company will be to operate as a managed currency fund in order to provide investors with a medium through which they can invest indirectly in bank deposits and monetary instruments denominated in various currencies. The aim of the Directors will be to provide a satisfactory total return for investors in terms of capital appreciation and income.

*Manager*
The Company will be managed by Securities Selection Limited and the investment adviser to the Manager will be Drayton Montagu Portfolio Management Limited ('Drayton Montagu').

*Issue and Redemption of Shares*
Shares in the Company will be available for issue at weekly intervals and may normally be redeemed at such intervals. The share capital of the Company is denominated in United States dollars but arrangements can be made whereby subscription moneys and redemption proceeds may be remitted in other currencies (for details see below under 'Issue of Shares', 'Procedure for Application' and 'Redemption of Shares').

*Dividends*
Dividends will be paid by the Company, normally once a year, without deduction or withholding of taxes under present law.

*Charges and brokerage*
An initial charge, not exceeding 5 per cent. of the gross proceeds of issue of shares, is payable to the Manager on such issue out of which the Manager may make a reallowance to investors and pay brokerage to intermediaries (for details see below under 'Issue of Shares'). The Manager is also entitled to receive a fee at the rate of 1·375 per cent. per annum of the net asset value of the Company (for details see below under 'Charges and Expenses').

*Stock Exchange Listing*
Application has been made to the Council of The Stock Exchange for the whole of the share capital of the Company to be issued to be admitted to the Official List.

### Investment policy

The objective of the Company is to provide investors with a convenient and efficient way in which to invest indirectly in a managed portfolio of bank deposits and monetary instruments denominated in various currencies under continuous professional supervision. The aim of the Directors will be to provide a satisfactory total return for shareholders in terms of capital appreciation and income.

Investments may be denominated in US dollars, pounds sterling, deutschemarks, Swiss francs, Dutch guilders, French francs, Japanese yen, Canadian dollars and any other freely marketable currency. There will be no restrictions on the holding of investments denominated in any one currency and it is not the policy of the Directors that a diversified portfolio should necessarily be held. The measurement of capital appreciation of the Company's investments will be against the US dollar being the currency in which the share capital of the Company is denominated. Investments will be made in bank deposits, treasury bills, certificates of deposit and other monetary instruments having a maturity of not more than ninety days.

Within this overall policy, the Directors will make investments so as to ensure that the Company retains sufficient flexibility to take advantage of expected movements in the foreign exchange market and to meet requests for redemption of shares. The income earned may be expected to fluctuate in line with the short-term interest rates of the selected currencies.

It is the policy of the Directors to establish and keep under review specific credit limits for each bank and institution with which investments or deposits will be made or placed in order to ensure a reasonable spread of risk.

*Forward Currency Contracts*
Use may be made from time to time of the forward market in currencies, but forward contracts will not be entered into having a life greater than ninety days. The use of forward markets permits an exposure to the future movement of a currency and it can introduce an element of gearing or leverage because it does not necessitate an immediate financial outlay. When the purpose of a forward transaction is to protect against the decline in value of an existing asset and while that asset is retained by the Company (there is, however, no introduction of gearing or leverage. The policy of the Directors will be to limit the aggregate of the amounts payable under forward purchase contracts outstanding at any one time (after deducting amounts held or set aside in the relevant currency to cover amounts so payable in that currency) and the amount of any borrowings to not more than 10% of the value of the net assets of the Company. It is not the intention of the Directors that borrowings should be made other than for short-term purposes.

It is the policy of the Directors that the Company should not trade in currency futures contracts or financial futures contracts but the Directors will keep this policy under review and will notify shareholders before any change in this policy is implemented.

Potential investors should be aware that the value of shares in the Company, and the income derived from them, may fall as well as rise.

### Dividend policy

Income earned on deposits or received from other investments, and the return earned from money-market instruments purchased at a discount to their face value which do not bear a rate of interest, will be taken to revenue.

Substantially all of such revenue will, after deduction of the expenses of management of the Company, be distributed to shareholders as dividend. The first dividend will be payable on 30th June 1983 in respect of the accounting period ending on 31st May 1983.

The level of distributable income may be expected to vary in line with short-term interest rates of the selected currencies and the rate of dividend payable in any year will not necessarily be maintained in future years. Not more than one dividend will be payable in respect of each financial year. Such dividends will normally be paid in June in each year.

### Investment management

The Directors of the Company will be responsible for the overall investment policy of the Company.

The Manager has been appointed under a Management Agreement dated 16th June 1982, as manager of the Company with responsibility for selection of investments and the day-to-day management of the Company.

The Management Agreement between the Company and the Manager will continue in force for a period of three years from its date and thereafter unless and until determined by either party giving to the other not less than six months' written notice. The Manager is entitled to retain the initial charge made in respect of the issue of shares in the Company and to receive a quarterly management fee (for details see below under 'Charges and Expenses').

Under the Management Agreement, the Manager is obliged to retain the services of an investment adviser or investment advisers, acceptable to the Directors and to the Bermuda Monetary Authority Foreign Exchange Control, to advise as to the investment of the assets of the Company.

By an Agreement dated 16th June 1982 the Manager has (with such approval) appointed Drayton Montagu as its investment adviser for a period of three years and thereafter unless and until determined by either party giving to the other not less than six months' written notice. The fees and expenses of Drayton Montagu will be borne by the Manager (for details see below under 'Charges and Expenses').

The Manager is a company incorporated on 15th June 1982 in and under the laws of Bermuda with limited liability. The directors of the Manager are Mr Ranald, Mr Holbrow (who are both directors of the Company), Mr Charles F. Hoare and Mr James H. F. Masters. The issued share capital of the Manager is $12,000 the whole of which is beneficially owned by Ranald Consultants Limited, a company registered in Hong Kong with limited liability, the whole of the issued share capital of which is owned by Mr Ranald who is its sole director.

*Directors of the Company*
Mr Ranald (aged 46) is a resident of Monaco, having emigrated from the United Kingdom in 1971. Mr Ranald was a founder shareholder of the management companies of the Castle Britannia Group of Unit Trusts and was Chairman and Managing Director of those companies from 1964 to 1969 when his controlling interests in the management companies were sold to another unit trust management group. At the time of the sale the management companies had funds under management of some £20,000,000. Since that date Mr Ranald has been engaged in private investment management in France and in 1980 was involved in the formation and launch of a currency unit trust in the Channel Islands.

Mr Hemingway (aged 51) practises as a solicitor and financial adviser on an international basis with offices in Monaco and London. He is also a director of a number of companies both public and private in Europe and North America.

Mr Hepper (aged 59) is Chairman of Richardsons Westgarth P.L.C. and a director of three other public companies, two of which are investment trust companies.

Mr Holbrow (aged 54) is an Assistant General Manager, Trust at The Bank of Bermuda Limited.

Mr Thomson (aged 51) is Deputy General Manager, International at The Bank of Bermuda Limited.

*Directors of the Manager*
Mr Ranald and Mr Holbrow are also directors of the Manager.

Mr Hoare (aged 50) was a director of the management companies of the Castle Britannia Group of Unit Trusts prior to the sale of their share capital in 1969. From 1975 until 1978 he was a managing director of Wardley Limited, the wholly-owned merchant banking subsidiary in Hong Kong of The Hongkong and Shanghai Banking Corporation. He is non-executive Chairman of Gees Group PLC and Managing Director of and owns Corinth Finance Limited, a Hong Kong company, which provides financial advice principally to companies operating outside the United Kingdom.

Mr Masters (aged 34) is Manager, Treasury at The Bank of Bermuda Limited.

*Investment Adviser*
Drayton Montagu is the wholly-owned investment management subsidiary of Samuel Montagu & Co. Limited, the ultimate holding company of which is Midland Bank plc. As at 30th April 1982, Drayton Montagu had under its management funds of approximately £1,400 million and a further amount of some £3,500 million in respect of which it provided investment advice. Samuel Montagu & Co. Limited may enter into currency and other transactions with the Company and will not be accountable for any profits on its part arising therefrom.

### Charges and expenses

Under the terms of the Management Agreement referred to above, the Manager will be entitled to receive an initial charge at a rate not exceeding 5 per cent. of the gross proceeds of issue of shares by the Company and a fee, payable quarterly, calculated at the rate of 1·375 per cent. per annum of the average weekly net asset value of the Company (calculated in accordance with the Bye-laws). The Manager is also entitled to be reimbursed expenses (up to a maximum of $1,500) incurred in connection with the formation of the Company. The Manager will be responsible for and will bear the fees of Drayton Montagu and any other investment adviser or any agent it appoints. The Manager will also bear the cost of providing accounting and certain administrative services to the Company including the cost of the weekly calculation of the net asset value per share.

The Manager may at its discretion make reallowance and/or pay commission or brokerage to investors or to investors' agents or other intermediaries through whom applications for shares are received. Such reallowance, commission or brokerage may be made or paid on issue of the shares either at intervals thereafter in respect of the period during which the investment is maintained with the Company. The making or payment of such reallowance, commission or brokerage is the sole responsibility of the Manager and amounts so paid will be borne by the Manager out of its own resources. Details of the reallowance, commission and brokerage to be made or paid by the Manager in respect of applications received pursuant to this initial issue are set out under 'Issue of Shares' below.

Drayton Montagu will be entitled to receive from the Manager a fee, payable quarterly, calculated at the rate of 0·375 per cent. per annum of the average weekly net asset value of the Company.

Each of the Directors of the Company shall be entitled to receive as remuneration from the Company such amount as the Board may determine, provided that the aggregate of such amounts shall not exceed $14,000 per annum unless otherwise resolved by the Company in general meeting. The Directors may also be paid all travelling, hotel and other expenses properly incurred by them in attending meetings of the Company.

As custodian, The Bank of Bermuda Limited ('the Bank') will be entitled to receive fees initially at the rate of 0·125 per cent. per annum of the average weekly net asset value of the Company and at the rate of 0·125 per cent. of the consideration for each transaction effected for the account of the Company (up to a maximum of $250 per item). The Bank is also entitled to be reimbursed its out-of-pocket expenses.

The Company will, in addition to the fees and expenses payable to the Manager, the Directors and the Bank as custodian, bear all its operating expenses including the fees and expenses of the Bank in its capacities as secretaries, registrar and transfer agent, of the auditors of the Company and of the legal advisers to the Company, the costs of printing and distributing the half-yearly and annual reports and statements, the annual company registration fee payable in Bermuda, stamp duty on its share capital, The Stock Exchange listing fees, the costs of publishing share prices and all dealing expenses and commissions.

The costs and expenses incurred in connection with the formation of the Company, the preparation and publication of this document, the initial issue of shares in the Company and the application to The Stock Exchange for admission of the shares to the Official List, excluding the initial charge payable to the Manager but including preliminary expenses of $1,500, all legal, printing and advertising costs, the expenses of the Manager and Bermuda stamp duty on the authorised share capital of the Company are estimated to amount to $130,000. In addition stamp duty will be payable in Bermuda as described under 'Taxation and Stamp Duty' at the rate of 0·009 dollars for each share subscribed pursuant to this offer. This duty and the said costs and expenses will be borne by the Company and amortised over the first five financial years of the Company.

### Issue of shares

The Company is making an initial offer of 1,000,000 shares at the fixed price of $10 per share. The procedure for application is set out below.

The issue price is $10 per share which includes an initial charge of 50 cents per share which will be payable by the Company to the Manager. The Manager will allow brokerage to members of The Stock Exchange, recognised banks, solicitors, accountants, insurance brokers and other professional intermediaries on applications made hereunder bearing their stamp at the rate of 75 per cent. of the initial charge, net of any reallowance, on all shares issued pursuant to such applications. The Manager will give a reallowance to applicants on applications for 10,000 shares or more as follows:

| Number of shares applied for | Reallowance per share | Initial charge, net of reallowance, per share |
|---|---|---|
| up to 10,000 | Nil | 50 cents |
| 10,000 or more but less than 20,000 | 25 cents | 25 cents |
| 20,000 or more | 50 cents | Nil |

The Manager will also pay in dollars to each professional intermediary within 30 days of each anniversary of the launch of the Company an annual commission at the rate of 0·2 per cent. of the aggregate weekly net asset value during the period of twelve months ending on that anniversary of all shares issued pursuant to applications made hereunder bearing the stamp of such intermediary and held continuously for that period of twelve months.

Payment for shares applied for must be made in full. Any reallowance or brokerage due will be paid in dollars by the Manager separately by cheque posted within 14 days after the closing of the subscription lists or, if later, after clearance of the applicant's cheque.

After the initial issue, shares may be issued by the Company on Subscription Days. The Bye-laws of the Company provide that shares may not be issued at less than the Subscription Price (as to the calculation of which, see below under 'Prices and Net Asset Value') as at the close of business on the preceding Valuation Day, nor at less than their par value.

The Subscription Price, save in respect of the initial issue of shares, will include an equalisation payment in respect of the net undistributed income of the Company in order to ensure that the level of subsequent dividends is not affected by the issue of shares. The Redemption Price per share may similarly include an amount in respect of the accrued income of the Company up to the date on which the redemption is effected.

Subscription Days will be every Wednesday and Valuation Days will be every Tuesday (or if any such day is not a business day in Bermuda, the next following business day) and/or such other day or days as may from time to time be determined by the Directors. The Bye-laws provide that there shall be at least one Valuation Day in each month.

The Subscription Price of shares will be published daily in the Financial Times and in the International Herald Tribune and will be available from the Manager on request.

### Procedure for application

Applications for shares must be made on the application form forming part of this document. The minimum subscription for each applicant is 2,000 shares.

Applications should be sent either to:

The Bank of Bermuda Limited,
Corporate Trust Department,
Bank of Bermuda Building, Hamilton, Bermuda

or

The Bank of Bermuda (Guernsey) Limited,
Bermuda House, St Julian's Avenue,
St. Peter Port, Guernsey, Channel Islands.

Applications should be sent so as to reach either such address not later than 10 a.m. (Bermuda time) on Friday, 9th July 1982. Applications which do not fulfil the conditions stated in this document may be rejected and the right is reserved to reject any application and to accept any application in part only.

*Payment in dollars*
Payment in dollars may be made either:–

(i) by telegraphic transfer to Chase Manhattan Bank of 1 Chase Manhattan Plaza, New York, NY 10015 for the account of The Bank of Bermuda Limited (Chips UID No. 005584 and account No. 001-1-067246) sub-account Forexfund Limited and by advice to that effect to The Bank of Bermuda Limited or

(ii) in the case of an application sent to The Bank of Bermuda (Guernsey) Limited, by a dollar cheque in favour of The Bank of Bermuda (Guernsey) Limited which should accompany such application.

*Payment in pounds sterling, deutschemarks or Swiss francs*
Shares will only be issued by the Company against payment in dollars. Where the application is sent to The Bank of Bermuda (Guernsey) Limited application moneys may, however, be remitted in pounds sterling, deutschemarks or Swiss francs by telegraphic transfer to Midland Bank plc, International Division of 60 Gracechurch Street, London EC3P 3BN for the account of The Bank of Bermuda (Guernsey) Limited (account no. 491498, for pounds sterling remittances, or account no. 68012679, for deutschemark remittances, or account no. 68169272 for Swiss franc remittances) sub-account Forexfund Limited and by advice to that effect to The Bank of Bermuda (Guernsey) Limited in Guernsey.

The Bank of Bermuda (Guernsey) Limited will, as soon as practicable after confirmation of receipt of the telegraphic transfer arrange the necessary foreign exchange transaction to convert the currency remitted into dollars on behalf of and for the account of the applicant without responsibility in respect of the Company and then remit the net dollar proceeds to the account of the Company with the Bank. The Bank of Bermuda Limited is referred to above. Where payment in dollars has not been received by the Company when the subscription lists close the relevant application will not be accepted. No responsibility is accepted by the Company or by the Bank or The Bank of Bermuda (Guernsey) Limited for any delays in the clearance of funds or for any necessary currency conversion.

If on conversion into dollars, the application moneys are insufficient to pay in full the subscription price of the shares applied for, the application will be treated as an application for such lesser number of shares (excluding fractions of a share to the nearest one-hundredth of a share) as may be subscribed with such application moneys provided that such lesser number is more than 2,000. If such lesser number is less than 2,000 the application will be rejected.

Acceptance of applications will be conditional on the Council of The Stock Exchange admitting to the Official List, on or before 16th July 1982, the shares in the Company. Moneys paid in respect of applications will be returned (without interest) in dollars if such listing is not obtained by that date and in the meantime will be retained by the Bank in dollars in a separate account.

If any application is not accepted in whole or in part, the application money or the balance thereof will be returned (without interest) in dollars through the post at the risk of the applicant. The right to present all cheques for payment on receipt is reserved and no share certificates will be issued or sent nor excess application money returned pending clearance of an applicant's cheque. Due completion and delivery of the application form accompanied by a cheque will constitute an undertaking that the cheque will be paid on first presentation and attention is drawn to the declaration in the application form to that effect.

Share certificates will be forwarded not later than 31st July 1982 at the risk of the person(s) entitled thereto by ordinary post to the person(s) in whose name(s) the shares are to be registered or, in the case of joint holders, to the first named holder at his registered address.

### Taxation and stamp duty

At the date of this document there is no Bermuda income tax, withholding tax, capital gains tax, capital transfer tax, estate duty or inheritance tax payable by the Company or its shareholders other than shareholders ordinarily resident in Bermuda.

By virtue of the Exempted Undertakings Tax Protection Act 1966 (as amended), the Minister of Finance of Bermuda has given an undertaking that, in the event of there being enacted in Bermuda any legislation imposing tax computed on profits or income, or computed on any capital assets, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, such tax shall not until 28th March 2006 be applicable to the Company or to any of its operations, or to the shares, debentures or other obligations of the Company except insofar as such tax applies to persons ordinarily resident in Bermuda and holding such shares, debentures or other obligations of the Company or any land leased or let to the Company.

As an exempted company, however, the Company is liable to a fixed annual payment to the Bermuda Government which is currently BD$2,250.

Stamp duty at the rate of 0·25 per cent. on the nominal value of the Company's initial authorised share capital and on any increase therein and stamp duty at the rate of 0·1 per cent. on the excess of the subscription price over the nominal value in respect of the initial issue of a share is payable by the Company in Bermuda.

It is the intention of the Directors that, as far as possible, investment should be made in securities and deposits in a way which will secure that interest thereon is received without deduction of any withholding taxes imposed by other countries. Withholding taxes deducted will not be recoverable.

It is the intention of the Directors that neither the central management and control nor the day-to-day management of the Company will be undertaken in the United Kingdom. Accordingly, the Company should not be resident in the United Kingdom for taxation purposes. The Company should not, therefore, be liable to United Kingdom corporation tax on its income or gains.

Subject to their individual circumstances shareholders resident in the United Kingdom for taxation purposes will be liable to United Kingdom income tax or corporation tax in respect of dividends or other income distributions of the Company and, unless holding shares as dealing stock when different rules apply, will normally be liable to United Kingdom capital gains tax or corporation tax in respect of gains arising from the sale, redemption or disposal of shares.

Clearance under section 464 of the Income and Corporation Taxes Act, 1970, ('the Taxes Act') of the United Kingdom (cancellation of tax advantages from certain transactions in securities) has been given by the United Kingdom Board of Inland Revenue in relation to the issue by the Company of shares for cash, the subsequent sale of such shares to the Manager or on The Stock Exchange and the redemption of such shares by the Company.

The attention of individuals ordinarily resident in the United Kingdom is drawn to section 478 of the Taxes Act as amended by the Finance Act, 1981 which may render them liable to income tax in respect of the proportionate part of the undistributed income of the Company attributable to their holdings of shares.

The foregoing is based on the law and practice currently in force and is subject to changes therein.

Investors should consult their professional advisers on the possible tax consequences of buying, holding or selling shares in the Company under the laws of their country of citizenship, residence or domicile.

### Redemption of shares

Subject to any suspension of the determination of the net asset value of the Company (see below under 'Prices and Net Asset Value') and subject as mentioned below, shares may be redeemed by sending a letter requesting redemption, accompanied by the share certificates in respect of the shares to be redeemed, either to The Bank of Bermuda Limited in Bermuda or The Bank of Bermuda (Guernsey) Limited in Guernsey.

The redemption will be effected on the next Subscription Day if the request is so received three days before the Valuation Day preceding that Subscription Day or in any other case on the second Subscription Day after such receipt of the request. For this purpose notices received after 10 a.m. (Bermuda time) on any day, or on a day which is not a business day in Bermuda, will be deemed to have been received on the next business day. A shareholder redeeming shares will be paid the Redemption Price per share on the Subscription Day on which the redemption is effected, the method of calculating which is described below under 'Prices and Net Asset Value'. Subject as mentioned above, the Bye-laws provide that the Redemption Price will be paid to the redeeming shareholder in dollars within 7 days of the relevant Subscription Day.

Redemption of part of the holding of shares will be permitted provided it would not result in a shareholder remaining registered as the holder of shares the aggregate redemption price of which on the relevant Subscription Day would be less than $20,000. In the case of a partial redemption, a balance certificate will be sent at the same time as payment is made for the redeemed shares.

The redemption moneys are payable by the Company in dollars but arrangements may be made with The Bank of Bermuda (Guernsey) Limited whereby the dollar redemption moneys would be converted by The Bank of Bermuda (Guernsey) Limited on behalf of and for the account of the applicant, into either pounds sterling, deutschemarks or Swiss francs and remitted in that currency.

The Act of Incorporation of the Company prohibits any redemption being made if the effect thereof would be to reduce the aggregate par values of the fully-paid shares issued and outstanding below $12,000.

### Custodian, bankers, registrar and transfer agent

The Bank has been appointed by the Company as custodian of the investments and uninvested cash of the Company, which will be held on behalf of the Company either directly by the Bank or through a sub-custodian. The Bank is also responsible for maintaining the Register of Shareholders and for providing company secretarial services.

The Bank is a limited company incorporated in Bermuda under The Bank of Bermuda Act of 1890. *Through its main office in Bermuda and through subsidiaries in Hong Kong and Guernsey, the Bank* is engaged in a wide range of international banking and trust services.

The fees and expenses of the Bank as custodian (for details see above under 'Charges and Expenses'), and as secretaries, registrar and transfer agent will be borne by the Company.

The Company has also appointed the Bank as its bankers on the latter's normal banking terms for customers (as regards bank charges, interest and other matters). As bankers to the Company, the Bank will be responsible for implementing banking and financial transactions for the account of the Company. The Bank may act as principal in any such transactions with the Company and will not be accountable for any profits on its part arising out of such transactions.

A subsidiary of the Bank will be providing accounting and administrative services (including the calculation of the net asset value per share and the maintenance of the Company's books) to the Manager at the expense of the Manager.

### Subscription and redemption agent

The Bank of Bermuda (Guernsey) Limited, a wholly-owned subsidiary of the Bank, has agreed to act as a subscription and redemption agent of the Company in Guernsey for a fee which will be payable by the Manager.

### General information

*Constitution and Share capital*
The Company is an open-ended investment company with limited liability which was incorporated in Bermuda on 3rd June 1982, under the provisions of an Act of the Bermuda Legislature entitled 'The Forexfund Company Act, 1982'.

The present authorised share capital of the Company is $2,000,000 divided into 2,000,000 shares of $1 par value each of which, as at the date of this document 12,000 shares (being the Company's minimum issued capital) have been allotted nil paid at the price of $10 per share for renunciation as part of the initial offer of shares. All shares are of the same class and, upon issue, will rank pari passu among themselves. The Company has power, under its Act of Incorporation, to issue fractions of one share.

The Act of Incorporation and the Bye-laws comprise the constitution of the Company.

*Investment Restrictions*
The Bye-laws provide that the Directors shall not invest any of the assets of the Company in real property, commodities, commodity contracts or securities representing merchandise or rights to merchandise, or units, sub-units or shares in any trust scheme or mutual fund.

*Prices and Net Asset Value*
The Subscription Price per share in the Company at each Subscription Day is the net asset value per share in the Company determined in accordance with the Bye-laws as at the close of business on the Valuation Day preceding the Subscription Day, plus such sum (if any) as the Directors may consider represents the appropriate provision for fiscal and purchase charges which would be incurred on the purchase of the assets of the Company, plus the initial charge referred to under 'Charges and Expenses', plus such sum to round the price up to the nearest one cent per share.

The Redemption Price per share in the Company at each Subscription Day is the net asset value per share in the Company determined in accordance with the Bye-laws as at the close of business on the Valuation Day preceding the Subscription Day, less such an amount (if any) as the Directors may consider represents the appropriate allowance for fiscal and sale charges which would be incurred on the sale of the assets of the Company less such amount as would round the total down to the nearest one cent per share.

The value of the assets of the Company will be determined following the close of business in Bermuda on each Valuation Day which falls on each Tuesday, or, if any Tuesday is not a business day in both Bermuda and New York, on the next following day which is a business day in both those places. The net asset value per share is calculated by dividing the value of the assets of the Company, less its liabilities, by the total number of shares in issue.

The value of the assets of the Company and the amount of its liabilities will be determined by the Directors in accordance with Bye-law 11 which provides, *inter alia*, that:

(i) the value of any cash on hand or on deposit, bills, demand notes, accounts receivable, prepaid expenses, cash dividends and interest declared or accrued and not yet received shall be deemed to be the full amount thereof unless the Directors shall have determined that any such deposit, bill, demand note or account receivable is not worth the full amount thereof (in which event the value thereof shall be deemed to be such value as the Directors shall deem to be the reasonable value thereof;

(ii) where the Company has entered into a forward contract for the sale or purchase of any currency the currency required to be delivered by the Company shall be included in the assets of the Company at the price payable to the Company under such contract and there shall be included in the liabilities of the Company the cost of purchasing, as advised to the Company for the Valuation Day immediately preceding the relevant Subscription Day, the contract quantity of that currency on the date for performance of the contract;

(iii) securities shall be valued at the mean between the lowest available dealing offered price and the highest available dealing bid price on the principal securities market for those securities; all such valuations shall be calculated by reference to the prices appearing to the Directors to be the latest available on such principal securities market at the close of business on the Valuation Day immediately preceding the Subscription Day on which shares are to be allotted or redeemed (as the case may be) provided always that:

(a) if the Directors in their discretion consider that the prices ruling on a securities market other than the principal securities market provide in all the circumstances a fairer criterion of value in relation to any such investment, they may adopt such prices;

(b) the Directors may at their absolute discretion, permit some other method of valuation to be used if they consider that such valuation better reflects the fair value;

(iv) if and whenever the quoted, listed or available price of an investment is a single price such price shall be taken as the mean between the lowest available market dealing offered price and the highest available market dealing bid price;

(v) preliminary expenses (including the expenses incurred in connection with the initial issue of shares) will be amortised over a period of five years or such shorter period as the Directors may determine from time to time and will be included as an asset at cost less amounts written off;

(vi) if no price quotations are available as above provided, the value thereof shall be determined from time to time in such manner as the Directors shall determine; and

(vii) any value (whether of a security or cash) otherwise than in US dollars shall be converted into US dollars at the rate (whether official or otherwise) which the Directors shall in their absolute discretion deem appropriate to the circumstances having regard *inter alia* to any premium or discount which they consider may be relevant and to costs of exchange.

The Bye-laws provide that the Directors may at any time and from time to time suspend the determination of the net asset value for the whole or any part of any period (a) during which any principal securities market on which any significant portion of the investments of the Company are listed, quoted, traded or dealt in is closed (other than customary weekend and holiday closing) or trading on any such market is materially restricted, or (b) when circumstances exist as a result of which in the opinion of the Directors it is not reasonably practicable for the Company to dispose of investments owned by it or as a result of which any such disposal would be materially prejudicial to shareholders or (c) when a breakdown occurs in any of the means normally employed in ascertaining the value of investments or when for any other reason the value of any of the investments or other assets of the Company cannot reasonably or fairly be ascertained or (d) during which the Company is unable to repatriate funds for the purpose of making payments on the redemption of shares or during which any transfer of funds involved in the realisation or acquisition of investments or payments due on redemption of shares cannot in the opinion of the Directors be effected at normal rates of exchange. No shares may be issued or redeemed during such a period of suspension. Notice of any such suspension will be given by the Directors to any shareholder tendering his shares for redemption and will also be published in the Financial Times and the International Herald Tribune and in any other way that the Directors may consider appropriate.

The Bye-laws provide that any certificate as to the net asset value given by or on behalf of the Directors in good faith is conclusive.

*Share Certificates*
In accordance with Bermuda law, share certificates will only be issued in the names of companies, partnerships or individuals. In the case of an applicant acting in a special capacity (for example, as an executor or trustee), certificates may, at the request of the applicant, record the capacity in which such applicant is acting. Shares purchased for those under 21 years of age must be registered in the name of the parent or guardian, but may be designated with the minor's initials for the purpose of identification.

Arrangements can be made with the Bank for shares to be held in the name of a nominee of the Bank or under a trust in Bermuda. Details of these facilities, which are provided by the Bank, can be obtained from the Bank.

*Transfer of Shares*
Shares are transferable by instrument in writing signed by (or, in the case of a transfer by a body corporate, signed on behalf of or sealed by) the transferor and registered in the Register of Shareholders of the Company. The Directors may decline to register any transfer of shares over which the Company has a lien and may also decline to recognise any instrument of transfer unless it is deposited at the office of the Company or such other place as the Directors may appoint, accompanied by a certificate for the shares to which it relates, and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer. The Directors may in their absolute discretion suspend the registration of transfers for not more than a total of 30 days in any year. In the case of the death of any one of joint shareholders, the survivor or survivors will be the only person or persons recognised by the Company as having any title to the interest of the deceased joint shareholder in the shares registered in the names of such joint shareholders.

Shares may be bought and sold on The Stock Exchange without the need to comply with the restrictions referred to above as to the minimum number of shares held.

*Exchange Control*
The Company has been classified as non-resident of the Bermuda Exchange Control area by the Bermuda Monetary Authority Foreign Exchange Control, whose permission for the issue of shares in the Company has been obtained subject to the condition that the appointment of any new investment adviser to replace Drayton Montagu should have its prior approval. The transfer of shares between persons regarded as resident outside Bermuda for exchange control purposes and the issue and redemption of shares to or by such persons may be effected without specific consent under the Bermuda Exchange Control Act 1972 and regulations made thereunder. Issues and transfers involving any person regarded as resident in Bermuda for exchange control purposes require specific prior authorisation under that Act.

Under current Bermuda legislation a transfer of shares, where the transferee is resident in Bermuda for the purposes of the Exchange Control Regulations 1973, must be stamped at the rate of one half of one per cent. of the consideration for the transfer.

*Reports and Accounts*
Copies of the audited financial statements of the Company (made up to 31st May in each year) will be sent to shareholders at their registered addresses not less than 21 days before the date fixed for the general meeting of the Company at which they will be considered. Shareholders will also be sent copies of a half-yearly report on the Company and the half-yearly unaudited financial statements of the Company made up to 30th November in each year.

*General Meetings*
The annual general meeting of shareholders of the Company will be held for the purpose, *inter alia*, of considering the audited financial statements of the Company in Bermuda or such other location as the Directors of the Company may from time to time determine. Notices convening the annual general meeting (together with the annual report and accounts of the Company) will be sent to shareholders at their registered addresses not later than 21 days before the date fixed for the meeting. Other general meetings may be convened from time to time by the Directors by sending notices to shareholders at their registered addresses.

*Auditors' Report*
The following is a copy of a report received from Peat, Marwick, Mitchell & Co., Chartered Accountants, the auditors of the Company:

Vallis Building,
Hamilton,
Bermuda.
16th June 1982

To the Directors,
Forexfund Limited.

Gentlemen,
We report that your Company was incorporated on 3rd June 1982. Your Company has not yet commenced business and accordingly no accounts have been made up and no dividends have been declared or paid.

Yours faithfully,

Peat, Marwick, Mitchell & Co.

*Directors*
No Director has a service agreement with the Company nor is any such contract proposed. A Director is not required to hold any shares by way of qualification. There are no provisions requiring Directors to retire at any specified age.

Each of Mr Hemingway, Mr Hepper and Mr Hoare may benefit from the receipt from the Manager of brokerage at the same rate and on the same terms as other professional intermediaries (for details see 'Issue of Shares' above).

*Directors' Remuneration*
The Bye-laws contain provisions to the following effect:

(a) Each of the Directors shall be paid remuneration at such rate as may from time to time be determined by the Board provided that the aggregate of all such remuneration (excluding amounts payable under any other Bye-law) shall not exceed $14,000 per annum or such higher amount as may from time to time be determined by resolution of the Company in General Meeting.

(b) The Directors may be paid all travelling, hotel and other expenses properly incurred by them in attending and returning from meetings of the Directors or any committee of the Directors or General Meetings of the Company or in connection with the business of the Company.

(c) Any Director who serves on any committee or who devotes special attention to the business of the Company or who otherwise performs services which in the opinion of the Directors are outside the scope of the ordinary duties of a Director may be paid such extra remuneration by way of salary or otherwise as the Directors may determine.

*Transactions with Directors etc.*
The Bye-laws contain provisions to the following effect:

(a) A Director may hold any other office or place of profit under the Company (other than the office of Auditor) in conjunction with his office of Director or may act in a professional capacity to the Company on such terms as to tenure of office, and otherwise as the Directors may determine.

(b) No Director or intending Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise, nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realised by any such contract or arrangement by reason of such Director holding that office or of the fiduciary relationship thereby established, but the nature of his interest must be declared by him at the meeting of the Directors at which the question of entering into the contract or arrangements first taken into consideration, or if the Director was not at the date of the meeting interested in the proposed contract or arrangement, then at the next meeting of the Directors held after he becomes so interested, and in a case where the Director becomes interested in a contract or arrangement after it is made, then at the first meeting of the Directors held after he becomes so interested.

A Director's voting rights in respect of matters in which he is materially interested are restricted in certain cases, but the Company has power in general meeting to suspend or relax such restrictions or to ratify any transaction not duly authorised by reason of a contravention thereof.

*Restrictions on Holdings*
The Directors have the power to impose such restrictions as they may think necessary for the purpose of ensuring that no shares in the Company are acquired or held directly or beneficially (i) by any United States person or (ii) by any person in breach of the law or requirements of any country or governmental authority. The Bye-laws define a 'United States person' as being any person who is a national, citizen or resident of, or who is normally resident in, the United States of America or its possessions or its territories or areas subject to its jurisdiction (including the estate of any such person and corporations or partnerships created or organised therein). The Bye-laws provide that if it shall come to the notice of the Directors that any shares are owned directly or beneficially by any United States person or by any other person in contravention of any such restrictions ('a non-qualified person') the Directors may give notice to such person requiring him to transfer such shares to a person who is not a non-qualified person or to give a request in writing for the redemption of such shares in accordance with the Bye-laws. If any person upon whom such a notice is served pursuant to this paragraph does not within thirty days after such notice transfer his shares as aforesaid or establish to the satisfaction of the Directors (whose judgment shall be final and binding) that he is not a non-qualified person he shall be deemed upon the expiration of thirty days to have given a request in writing for the redemption of all his shares pursuant to the Bye-laws whereupon he shall be bound forthwith to deliver to the Company or its duly authorised agents the certificate or certificates for his shares. A non-qualified person holding shares in contravention of any restriction imposed by the Directors as above is required, unless he has already received a notice pursuant to this paragraph, either to transfer all his shares to a person who is not a non-qualified person or give a request in writing for the redemption of all his shares pursuant to the Bye-laws. Every such request shall be accompanied by the certificate or certificates for the shares to which it refers.

*Indemnities and Responsibility*
The Bye-laws contain the following provisions:

(1) Every Director, Secretary, and other officer or servant of the Company shall be indemnified by the Company against, and it shall be the duty of the Directors out of the funds of the Company to pay, all costs, losses, and expenses which any such officer or servant may incur or become liable to by reason of any contract entered into, or act or thing done by him as such officer or servant, or in any way in the discharge of his duties, and the amount for which such indemnity is provided shall immediately attach as a lien on the property of the Company, and have priority as between the Shareholders over all other claims.

(2) No Director, Secretary or other officer of the Company shall be liable for the acts, receipts, neglects or defaults of any other Director or officer, or for joining in any receipt or other act for conformity, or for any loss or expense happening to the Company through the insufficiency or deficiency of title to any property acquired by order of the Directors for or on behalf of the Company, or for the insufficiency or deficiency of any security in or upon which any of the moneys of the Company shall be invested, or for any loss or damage arising from the bankruptcy, insolvency, or tortious act of any person with whom any moneys, securities or effects shall be deposited, or for any loss occasioned by any error of judgment, omission, default, or oversight on his part, or for any other loss, damage, or misfortune whatever which shall happen in relation to the execution of the duties of his office or in relation thereto, unless the same happen through his own dishonesty.

*Borrowings*
Under the Bye-laws the Directors may exercise the Company's powers to borrow and to charge its assets, but they are required to restrict the borrowings of the Company and to exercise all voting and other rights or powers of control exercisable by the Company in relation to its subsidiary companies (if any) so as to secure (as regards subsidiary companies so far as by such exercise they can secure) that the aggregate amount for the time being remaining undischarged of all moneys borrowed by the Group (which expression means and includes the Company and its subsidiaries for the time being) exclusive of intra-Group borrowing shall not, except with the consent of the Company in General Meeting, exceed an amount equal to the net asset value of all shares in the Company (as defined in the Bye-laws).

**Continued**

INSURANCE

# Lloyd's dilutes its claim to protection from lawsuits

BY JOHN MOORE, CITY CORRESPONDENT

THE House of Lords select committee reviewing the Lloyd's Bill for improving the insurance market's self-regulation has nearly finished its inquiries. The final closing speech by legal counsel on behalf of those giving evidence is expected to be heard tomorrow.

The committee, chaired by Lord Nugent of Guildford, will then deliberate on whether further changes in the Lloyd's legislation are required.

Already the committee has forced Lloyd's to modify its immunity clause which would have granted a new Lloyd's ruling council immunity from legal suits for damages by any of its members.

Lord Nugent told Lloyd's that the "matter of immunity is something on which parliamentarians are extremely sensitive and the narrower you are able to draw your clause the less difficult it is for Parliament to accept it."

Lloyd's heeded the wishes of the committee and the immunity clause allows members of Lloyd's to start proceedings for defamation and libel against the council. The council is now protected only from suits for damages in respect of negligence.

In acceding to the wishes of the committee, and responding to opposition by some members of the Lords to the immunity clause, Lloyd's has undermined a central prop to its argument for immunity.

Lloyd's has asserted that it needed immunity from suits for damages because constant legal wrangles would cause immense damage to the market, particularly if those actions became protracted.

It said that it was "peculiarly vulnerable to blackmail by litigation" and that its position in world markets could be put at risk by sustained legal action. Lloyd's stressed that it needed protection for a council to move with confidence in dealing with problems which arose in the market.

As the scope of the clause has been narrowed, many of these arguments are now falling away.

Lloyd's is still vulnerable to protracted legal action by its own members with all the attendant publicity this might entail and which it was seeking to avoid because of fears that it might jeopardise its position in world markets.

Defending the provision of immunity from suits claiming negligence, Lloyd's argues that conventional protection through insurance would not be adequate. Yet here the arguments are vulnerable.

The present Lloyd's committee is protected in carrying out its present duties by an errors and omission insurance policy believed to be in the region of £100m. That policy is placed both inside Lloyd's and outside among London insurance companies.

Lloyd's says that a new council would need a much larger insurance policy to carry out its duties. Extending that new policy could involve many overseas insurance companies.

If a dispute arose, Lloyd's would have to alert its underwriters under the terms of the policy and confidential business information might need to be exchanged among Lloyd's own competitors.

To what extent this might become a real problem has not been demonstrated before the Lords committee. A specialist broker in errors and omissions insurance has been called by those opposing the immunity clause, but no specialist underwriter in that area has given evidence on this issue before the committee.

The other controversial area of the Lloyd's Bill, that of the forced sale of brokers' shareholding links with underwriting interests, has attracted widespread opposition before the committee.

Those opposing divestment say that Lloyd's will be damaged in the future. There would be little financial incentive to bring business to the market, which would come to be treated like "any other market," they argue.

They also say that the conflicts of interest could be eradicated through a formal separation of management functions within the broking groups, stopping short of outright sale.

However, three of the world's largest brokers have testified that their perception of Lloyd's as a market will not be altered if divestment goes ahead.

In the present relationship, where brokers own shareholdings in underwriting managing agencies, abuses can and do occur.

Lloyd's is attempting to regularise the relationship between brokers and underwriters, restore the market's identity and provide a sytem of fair self-regulation within the market.

Divestment is the central plank on which effective self-regulation at Lloyd's rests. If it is withdrawn from the Bill, there are those in Lloyd's who argue that the Bill should be withdrawn rather than pursue new legislation at any price.

# Midland Bank to maintain horse trial funds

MIDLAND BANK has agreed with the British Horse Society horse trials committee to continue its financial support for horse trials after it ceases to be the sport's national sponsor at the end of the current season. However, funding will be at a more modest level.

A series of 10 one-day trials will precede the 1983 Midland Bank Novice Horse Trials Championship at Locko Park, Derbyshire, next August.

# Shelter urges radical housing reform

BY LISA WOOD

RADICAL changes in the methods of financing the provision of housing are proposed in a report published today by Shelter, the national campaign for helping the homeless.

The report, Housing and the Economy: A Priority for Reform, calls the present system of housing finance inefficient, unfair and damaging to the nation's productive economy. The rented sector, both public and private, is being undermined by the wide range of tax exemptions available to home owners, the report says.

These exemptions, it says, have artificially stimulated the demand to buy and resulted in rapid house price inflation and widespread under-occupation.

"Resources which are desperately needed to renew the country's deteriorating housing stock are thus being diverted to subsidise those home-owners who are already comparatively well-off."

Far from helping the first-time home buyer, the present distribution of subsidies made purchasing difficult and expensive while providing substantial benefits to people who least needed them.

Shelter calls for policies to reflect the need for greater tax neutrality between investment in housing and other forms of investment; the encouragement of better maintenance and rate of occupancy of Britain's housing stock; and a reversal of the trend whereby a rapidly increasing proportion of housing expenditure is taken by subsidies at the expense of investment.

These requirements could not be met unless the main tax exemptions which home owners enjoyed, including mortgage interest, capital gains and imputed rental value, were examined.

APPOINTMENTS

# Senior posts at Lloyds Bank

Mr P. L. Brooke has been appointed to the board of LLOYDS BANK INTERNATIONAL as an executive director from July 5. He will become executive director, merchant banking division, on August 2, taking over from Mr M. H. R. Thompson who returns to Lloyds Bank as an assistant chief general manager. Mr Brooke joins LBI from Chase Manhattan Bank, New York, where he was director, merchant banking.

*

Mr Donald M. Corbett has joined the partnership of GREIG, MIDDLETON, stockbrokers, and will be responsible for the new branch office in Bristol.

*

Mr Michael D. Heeley has been appointed vice-president and Mr John E. Rimmer assistant vice-president by MANUFACTURERS HANOVER TRUST CO.

*

Mr G. J. Strowger has been appointed to the board of HARLAND SIMON (1980) as a non-executive director. He is chairman of Hornby Hobbies and General Telephone Services.

*

Mr Clive A. Parritt, a partner in Touche Ross, has been elected chairman of the LONDON SOCIETY OF CHARTERED ACCOUNTANTS for 1982-83. Mr Brian Worth has been elected vice-chairman and Mr Peter Wyman, treasurer.

*

Mr Stuart T. Graham has succeeded Sir John E. Read, who resigned as chairman of INTERNATIONAL COMMODITIES CLEARING HOUSE upon its recent change of ownership. Mr Arthur C. Richards also resigned from the board and the following appointments have been made: Mr Denis M. Child, of the National Westminster Bank; Mr Kenneth B. Cox, of the Midland Bank; Mr John A. Davies, of Lloyds Bank; Mr Norman E. Foster, of Barclays Bank; Mr Alan D. Orsich, of Standard Chartered Bank; and Mr Alfred G. Pollard, of Williams & Glyn's Bank. Mr Peter J. McLaren, formerly an assistant director, has also been appointed a director.

*

Mr A. C. Buckmaster, managing director of Dowty Mining Equipment, has been appointed additionally to the board of DOWTY MECO.

*

Following the rationalisation and reorganisation moves at WATSON & PHILIP which have taken place over the last year, Mr H. V. Gardner has resigned as managing director of the company and its subsidiaries from June 18. The chairman, Mr J. C. Hadden, will become executive chairman and the other executive directors will assume the remaining duties formerly carried out by Mr Gardner.

*

Mr W. A. G. Spicer will retire as finance director of ARTHUR GUINNESS AND SONS on July 31 and Mr M. Hely Hutchinson has resigned as a director of the company with effect from September 30 to become chief executive of the BANK OF IRELAND.

*

Mr Keith Speed, the former Navy Minister who was dismissed by Mrs Thatcher for criticising defence cuts, has been appointed Parliamentary consultant to the PROFESSIONAL ASSOCIATION OF TEACHERS—the "we never strike union." Mr Speed, Conservative MP for Ashford, succeeds Mr John Butcher, MP for Coventry South West, who has accepted a Government post.

*

Mr Leonard Boyle has been appointed chairman of GREENWOOD DEVELOPMENT HOLDINGS.

*

Mr Richard H. Amis, chairman of Alfred Booth and Co. has been appointed to the board of MICHELIN TYRE.

*

Mr Alan Hicks has joined the London Office of FIDELITY BANK as vice-president and foreign exchange manager, and Ms Penny Page, who has been promoted to senior operations officer, is on assignment at the London office as operations manager. Mr Hicks was previously chief trader for corporate services with the Bank of Canada in Toronto and London. Ms Page was assistant manager of operations at Fidelity's New York City-based subsidiary, Fidelity International Bank.

*

Mr Vic Scrivener has been appointed group engineering and property director at ROADLINE UK. He was an executive manager with the National Freight Corp. as head of purchasing. Before joining the NFC 18 months ago he was managing director of Tate and Lyle's Scottish operations.

*

Mr Graham G. Woodhead has been appointed a director of BESTOBELL from July 1. He joined Bestobell in 1972 as general manager of Bestobell Seals. In 1976 he was appointed managing director of Bestobell Mobrey and in 1979 became business group manager of the controls and instrumentation group of companies comprising operating units in the UK, Europe and North America.

*

ERNST AND WHINNEY have admitted to partnership from July 1: Mr L. J. Allen—national, Mr R. D. Anderson—Aberdeen, Mr A. J. Barton—Newcastle, Mr I. Quinlan—Manchester, Mr R. J. Todd—Southampton, Mr D. T. Wilson—London, Mr E. S. Yates—Bristol, and Mr C. Young—Glasgow.



# FOREXFUND LIMITED *continued*

*Contracts*
The following contracts have been entered into prior to the date of this document and are, or may be, material:

(i) Management Agreement dated 16th June 1982 between (1) the Company and (2) the Manager whereby the Company appointed the Manager, subject to the overall supervision of the Directors, to manage the Company's investments and affairs, with powers of delegation, and to distribute and promote the distribution of its shares. The Agreement contains provisions indemnifying and exempting the Manager from liability not due to its wilful misfeasance, negligence, bad faith or reckless disregard of duties. For the purposes of carrying out its duties under the Agreement, certain of the functions, duties, powers and discretions of the Directors are exercisable by the Manager. In the event of the termination of the Management Agreement, these functions, duties, powers and discretions would revert to the Directors. The Agreement is for a period of three years and will continue thereafter unless and until terminated by six months' notice in writing being given by either party to the other.

(ii) Investment Advisory Agreement dated 16th June 1982 between (1) the Company (2) the Manager and (3) Drayton Montagu whereby Drayton Montagu agreed to give investment advice to the Manager with respect to the Company. The Agreement contains provisions whereby the Manager and the Company agree to indemnify and exempt Drayton Montagu from liability not due to its wilful misfeasance, negligence, bad faith or reckless disregard of duties. The Agreement is for a period of three years and will continue thereafter unless and until terminated by six months' notice in writing given by either party to the other.

(iii) Custodian Agreement dated 16th June 1982 between (1) the Company and (2) the Bank whereby the Company appointed the Bank to act as its Custodian. The Agreement exempts the Bank from liability to the Company not due to its wilful misfeasance, negligence, bad faith or reckless disregard of duties. The Agreement may be terminated by six months' notice in writing by either party to the other.

(iv) Secretaries, Registrar and Transfer Agent Agreement dated 16th June 1982 between (1) the Company and (2) the Bank whereby the Company appointed the Bank to act as its Secretaries, Registrar and Transfer Agent.

(v) Subscription and Redemption Agent Agreement dated 16th June 1982 between (1) the Company (2) the Manager and (3) The Bank of Bermuda (Guernsey) Limited whereby The Bank of Bermuda (Guernsey) Limited was appointed a subscription and redemption agent of the Company.

*Voting Rights*
The Bye-laws provide that, subject to any special terms as to voting upon which any shares may be issued or may for the time being be held, at any General Meeting on a show of hands every shareholder who (being an individual) is present in person or (being a corporation) is present by a duly authorised representative shall have one vote, and on a poll every shareholder who is present as aforesaid or by proxy shall have one vote, for every $1 nominal amount of share capital of which he is the holder.

*Amendment of Bye-laws*
The Bye-laws provide that no Bye-law may be rescinded, altered or amended, and no new Bye-law made, unless the same has been proposed at a meeting of the Directors and passed at a subsequent General Meeting by resolution passed by a majority of not less than 75 per cent. of such members of the Company as, being entitled so to do, vote in person or by proxy at that meeting.

*Miscellaneous*
The Company has not established a place of business in Great Britain and does not have any subsidiaries.

This document shall have the effect of rendering all persons concerned bound by all the provisions (other than the penal provisions) of Sections 50 and 51 of the Companies Act, 1948 of Great Britain.

No litigation or claims of material importance are pending or threatened against the Company.

The minimum amount which in the opinion of the Directors must be raised by the issue of shares in order to provide for the matters referred to in paragraph 4 of the Fourth Schedule to the Companies Act, 1948 is $3,000,000 made up as follows:

(i) Purchase price of property, nil.

(ii) Preliminary expenses and commissions, $151,000.

(iii) Repayment of moneys borrowed in respect of any of the above, nil.

(iv) Working capital, $2,849,000.

As mentioned above, a commission of 50 cents per share subscribed is payable to the Manager. The amount at (ii) above includes such commission on 300,000 shares.

Peat, Marwick, Mitchell & Co have given and have not withdrawn their written consent to the issue of this document with the inclusion of a copy of their report in the form and context in which it is included.

There were attached to the copy of this Prospectus delivered to the Registrar of Companies in England copies of the contracts referred to above under 'Contracts' and the consent of Peat, Marwick, Mitchell & Co referred to above.

*Inspection of Documents*
Copies of the following documents will be available for inspection at the offices of Slaughter and May, 35 Basinghall Street, London EC2V 5DB on any weekday (Saturdays excepted) during normal business hours until 9th July 1982:

(i) the Act of the Bermuda Legislature under which the Company was incorporated;

(ii) the Bye-laws of the Company;

(iii) the contracts, referred to under 'Contracts' above; and

(iv) the report and consent of Peat, Marwick, Mitchell & Co.

Dated 17th June 1982

**Copies of this document with application form may be obtained from:**

The Bank of Bermuda Limited,
Bank of Bermuda Building,
Front Street,
Hamilton 5-31, Bermuda.

The Bank of Bermuda (Guernsey) Limited,
Bermuda House,
St. Julian's Avenue,
St. Peter Port,
Guernsey,
Channel Islands.

Samuel Montagu & Co. Limited,
114 Old Broad Street,
London EC2.

Hoare Govett Limited,
Heron House,
319/325 High Holborn,
London WC1
and
27 Throgmorton Street,
London EC2.

## APPLICATION FORM

To: The Bank of Bermuda Limited.
Corporate Trust Department, Bank of Bermuda Building, Hamilton, Bermuda.

or The Bank of Bermuda (Guernsey) Limited
Bermuda House, St. Julian's Avenue, St. Peter Port, Guernsey, Channel Islands.
acting on behalf of:

The Directors of Forexfund Limited

1 I/We hereby acknowledge that I/We have received and considered the prospectus dated 17th June 1982 relating to Forexfund Limited and that this application is made on the terms thereof and subject to the provisions of the Bye-laws of Forexfund Limited.

2 I/We hereby apply for __________ shares of Forexfund Limited.
(*Note: the minimum holding for each applicant is 2,000 shares.*)

3*(i) I/We confirm that payment of US$__________ has been made by telegraphic transfer to Chase Manhattan Bank of 1 Chase Manhattan Plaza, New York, NY 10015 for the account of The Bank of Bermuda Limited, (Chips UID No.005584 and account No.001-1-067246) sub-account Forexfund Limited.

or

*(ii) I/We enclose a cheque in favour of The Bank of Bermuda (Guernsey) Limited for US$__________ and undertake to the Company that such cheque will be paid on first presentation.

or

*(iii) I/We confirm that payment of *£/*DM/*Sw Fr __________ has been made by telegraphic transfer to Midland Bank plc, International Division of 60 Gracechurch Street, London EC3P 3BN for the account of The Bank of Bermuda (Guernsey) Limited (*account no. 491498 (for payments in pounds sterling),* account no. 68013679 (for payments in deutschemarks), *account no. 68165923 (for payments in Swiss Francs)) sub-account Forexfund Limited and

I/We authorise The Bank of Bermuda (Guernsey) Limited as my/our agent and for my/our account to purchase with such moneys US dollars as soon as practicable after confirmation of receipt of the telegraphic transfer and to pay such US dollars to Chase Manhattan Bank for the account of The Bank of Bermuda Limited aforesaid.

(*Note: *Delete whichever is not appropriate.*)

4 (i) I confirm that:

*(a) I am not a United States person (as defined above).

*(b) I am a United States person but am applying as a nominee of a person who is not a United States person and who is not acting directly or indirectly for or on behalf of a United States person.

(*Note: *in the case of a single applicant, delete either (a) or (b) and (ii) below*)

(ii) We confirm that:

*(aa) None of us is a United States person.

*(bb) One or more of us is/are United States person(s) but we are applying as nominees of a person who is not a United States person and who is not acting directly or indirectly for or on behalf of a United States person.

(*Note: *in the case of joint applicants, delete either (aa) or (bb) and (i) above.*)

*Complete in block letters please*

Surname __________

Forenames (in full) __________

Address __________

Signature __________ Date __________

*In the case of joint applications, all remaining joint applicants should sign individually and complete below.*

Surname __________

Forenames (in full) __________

Address __________

Signature __________ Date __________

Surname __________

Forenames (in full) __________

Address __________

Signature __________ Date __________

Surname __________

Forenames (in full) __________

Address __________

Signature __________ Date __________

N.B. (A) Arrangements can be made with the Bank for shares to be held in the name of a nominee of the Bank or under a trust in Bermuda.
Please tick here if you require further details. ☐

(B) A confirmation note will be sent upon acceptance of this application.

(C) Share certificates will be mailed at the risk of the person(s) entitled thereto and, if there is more than one applicant, will be mailed to the address shown above of the first-named applicant.

(D) If on conversion into dollars the application moneys are insufficient to pay in full the subscription price of the shares applied for, this application shall be treated as an application for such lesser number of shares (including fractions of a share to the nearest one hundredth of a share) as may be subscribed with such application moneys provided that such lesser number is more than 2,000. If such lesser number is less than 2,000 the application will be rejected.

## THE WEEK IN THE COURTS

# Lord Denning and his pet aversion

T. S. ELIOT's aphorism that the end of the world "came not with a bang, but a whimper" will certainly not be applicable to the end of Lord Denning's amazing judicial career. The Master of the Rolls, who stands down in five weeks after 38 years of judicial office, gave a thunderous judgment on Friday, excoriating the trade union movement for treating a worker "as a pawn on the chessboard" of inter-union disputes. [1] Lord Denning was deploying all his judicial and literary talents against his pet aversion.

Mr Ernest Cheall was a member of the Association of Clerical Technical and Supervisory Staffs (ACTSS), a subsidiary of the Transport and General Workers Union (TGWU). Dissatisfied with the conduct of the union's affairs, Mr Cheall resigned and joined a rival union, the Association of Professional and Executive Clerical and Computer Staff (Apex). ACTSS complained to the Trades Union Congress that Apex was in breach of the Bridlington agreement of 1939 providing for the resolution of disputes between unions over membership. The disputes committee of the TUC adjudicated that Apex was "poaching," and ordered that Mr Cheall's membership of Apex should be terminated in accordance with a rule of the union. Mr Cheall did not lose his job after he had been ejected from Apex (which he had represented in the union's dealings with the employer, Vauxhall Motors) because there was no closed shop at Vauxhall, but he sued Apex for a declaration that he had been wrongly expelled by the union.

Lord Denning saw the issue in black and white terms. The individual worker *had* the freedom to join a trade union of his choice; he was not to be ordered to join any trade union without having a say in the matter. Whatever might be the consequences—in this case the possibility of industrial chaos—principle had to prevail over industrial convenience. But a worker's freedom to *join a union* and remain with the union of his choice confronts headlong the freedom of the trade union movement to organise itself effectively.

Mr Cheall is certainly not the first person to feel aggrieved at the "anti-poaching" rules which prevented him from remaining a *member of the union of* his choice. As Lord Justice Donaldson observed in his telling dissent from Lord Denning, there is an inherent and inevitable conflict between the needs of trade unions to avert industrial strife and the wish of individual workers: "The conflict is only one of the many intractable problems in industrial relations, and it is not one which judges can resolve." Lord Justice Donaldson could find no trace of unfairness towards Mr Cheall in the way that the trade union movement had dealt with his case.

Throughout the years the disputes committee of the TUC has made awards between contesting unions. The difficulty has occasionally cropped up that its awards have no legal force; the only sanction is disaffiliation from the TUC, or suspension of the errant union. The law in the past obstructed implementation of an award where union rules did not contain a power to expel a member following the TUC finding of union "poaching." In 1956 the TUC recommended to affiliated unions that *they* should adopt express expulsion rules in order to allow them to expel members on direction of the disputes committee. Rule 14 of Apex's rules provided that "notwithstanding anything in these rules the executive council may, by giving six weeks' notice in writing, terminate the membership of any member, if necessary, in order to comply with a decision of the disputes committee of the TUC." Lord Denning thought the rule did not comply with the fundamental principles of freedom of association and fairness towards members.

In the past the disputes committee's awards have sometimes appeared rather rigid and bureaucratic, in that they ignored the rights of the members involved in the disputes. Since the awards of the disputes committee are not legally binding on the individual worker-members, and are generally implemented by a provision such as Rule 14, there is much to be said for the disputes committee giving the worker the opportunity of stating his reasons for continued membership of his choice.

Lord Denning sought support for his sweeping condemnation of trade union interference with the worker's freedom to join a union of his choice from Article 11 of the European Convention on Human Rights. He said courts in the United Kingdom should themselves give effect to the Convention rather than force the citizen to go to the European Commission in Strasbourg, with the potential indignity of that international body declaring the UK Government in breach of the Convention. He assumed that Mr Cheall's case presented a clear violation of the freedom of association in the form of the closed shop. But in this instance it is anything but clear whether Apex's action would be regarded as a breach.

When the European Court of Human Rights, exactly a year ago, ruled on the case of three British Rail workers who were dismissed from their employment because they refused to join a union in *a closed shop* within British Rail, it did not outlaw every aspect of the closed shop.[2] The court said that it was not reviewing the closed shop as such in relation to the Convention nor was it expressing "an opinion on every consequence or form of compulsion which it may engender." It limited itself to the effect of the system on those three applicants. It went on to say that "compulsion to join a particular trade union may not always be contrary to the Convention."

It was only because a threat of dismissal involving loss of livelihood was such a serious form of compulsion that the three British Rail workers were successful. Even if Mr Cheall had suffered any loss of livelihood (which he did not) it is not at all certain whether the European Commission initially, or the European Court ultimately, would uphold his claim. It is conceivable that it would say that the restriction Rule 14 was justified as necessary in a democratic society, and so *would escape the breach of the* freedom of association. It might well conclude that the courts should affirm and not obstruct the awards of the TUC disputes committee.

1 *Cheall v Apex*, Times Law Report, June 19 1982.
2 *Young, James and Webster v United Kingdom* [1982] 4 E.H.R.R. 38.

**Justinian**

## RACING

BY DOMINIC WIGAN

AFTER the glitter and pageantry of Royal Ascot, where a high proportion of the £500,000 prize money was distributed among such relatively new but staunch supporters of British racing as Sheikh Fahad Maktoum al-Maktoum and his brother, Hamden al-Maktoum, it is not surprising to find a somewhat drab look about today's events.

But whatever it lacks in *quality is undoubtedly made* up for in quantity as regards the inveterate backer chasing Ascot losses. Following afternoon programmes at Brighton and Pontefract there is night racing at Wolverhampton, where the card is due to close some 7¼ hours after the "opener" on the Sussex course.

Lester Piggott, for whom Ascot was another memorable milestone in his career—highlighted by a probably never-to-be-beaten 11th Gold Cup victory—rarely visits Pontefract these days and it is interesting to find him at the South Yorkshire track. The main purpose of his visit appears to be the possibility of winning rides on Bracadale and Wintergrace.

Bracadale, a tough son of The Brianstan, has maintained *respectable form since winning* a Crown Plus Two Apprentice race at Goodwood last month without managing to defy big weights. *It* was his inability to quicken against three sprinters, below him in the handicap, which brought about his downfall at Leicester nine days ago.

Bracadale will clearly have his work cut out to give upwards of 15 lbs away all round in the Martin Group Trophy, and I prefer to rely on the unpredictable but talented Och Aye. At 33 lbs below Piggott's mount in the weights. Och Aye represents James Bethell in preference to the four times recent winner, Lord Wimpy.

Wintergrace, the almost assured favourite for the Pontefract Maiden mile, has not been *seen in public since finishing* a close fifth of 21 behind Moniar in a maiden event at Newmarket in the first half of last month. But she is said to have been going well at home since that encouraging effort, and her market position is likely to be justified.

A chestnut daughter of Northern Dancer, Wintergrace again finds herself, in a 21-runner field for which dangers in the shape of Wynnwith Boy and Taking Silk could emerge.

**BRIGHTON**
2.00—Ziman
3.00—Black Mike
4.30—My Maravilla

**PONTEFRACT**
2.45—Gentle Music
3.45—Och Aye***
4.15—Wintegrace
4.45—Commonty**

**WOLVERHAMPTON**
6.45—Bell Island
7.10—Archon
7.35—Charbonnel*

## TELEVISION

### Tonight's Choice

At last it's summer and the schedules shine with repeats. Whatever Happened To The Likely Lads? was one of the best comedy series ever, as good as the original Likely Lads, and with acidulous Terry (James Bolam), devious Bob (Rodney Bewes) and prim Thelma (Brigit Forsyth), Dick Clement's and Ian La Frenais scripts got the acting excellence they deserved. This week (BBC-1 7.40) Bob gets breathalysed.

Of course if you are a Honduran you will want to watch your chicos play Northern Ireland (ITV 7.30). Inevitably BBC-2 has an interesting programme at the same time as the other two channels, Kenneth Hudson visiting the museums at Grasmere and Scunthorpe which are among the six finalists in this year's Museum Of The Year award.

The other big repeat of the day is Frederick Lonsdale's comedy On Approval, in which two aristocratic couples anticipate marriage (well, the daytime side of it: this is the 1920's) to test compatibility. Penelope Keith, as usual, makes up for the dull dialogue. (BBC-1 9.25)

PS: Wimbledon starts at 1.55 (BBC-1) and goes on and on and on . . . By 11.00 at night you might even be ready for highlights of Algeria v Austria (BBC-1).

ANTONY THORNCROFT

### BBC 1

6.40-7.55 am Open University (Ultra High Frequency only). 10.00 You and Me. 10.15-11.20 For Schools, Colleges. 1.00 pm News After Noon. 1.30 Pigeon Street. 1.55 Wimbledon Lawn Tennis Championships. 4.18 Regional News for England (excluding London). 4.20 Play School. 4.45 The Space Sentinels. 5.05 Newsround. 5.10 Blue Peter. 5.40 News. 6.00 Regional News Magazines. 6.22 Nationwide. 6.45 World Cup Report: Highlights of the matches between Kuwait and France, and Algeria and Austria. 7.15 Triangle. 7.40 Comedy Classic: Whatever Happened to the Likely Lads? 8.10 Panorama. 9.25 Play of the Month: On Approval by Frederick Lonsdale, starring Penelope Keith and Jeremy Brett. 10.58 News Headlines. 11.00 World Cup Report: Highlights from tonight's match between Northern Ireland and Honduras, plus action from France v Kuwait and Algeria v Austria.

### BBC 2

6.40-7.55 am Open University. 10.30 Play School. 2.01 pm For Schools, Colleges. 2.20 Wimbledon 82. 7.40 News Summary. 7.45 Museum of the Year. 8.10 Tony Sings and Buddy Swings. 9.00 The Hitch-hiker's Guide to the Galaxy. 9.35 Human Brain. 10.35 Wimbledon 82. 11.00-11.50 Newsnight.

### LONDON

9.30 am Schools Programmes. 12.00 Cockleshell Bay. 12.10 pm Rainbow. 12.30 Supersavers. 1.00 News, plus FT Index. 1.20 Thames News with Robin Houston. 1.30 Van Der Valk. 2.30 Monday Matinee: "Trader Horn" starring Rod Taylor, Anne Heywood and Jean Sorel. 4.15 Porky Pig. 4.20 The Sooty Show. 4.45 Smith and Goody. 5.15 Gambit. 5.45 News. 6.00 Thames News with Andrew Gardner and Rita Carter. 6.25 Help! with Viv Taylor Gee. 6.35 Crossroads. 7.00 Coronation Street. 7.30 World Cup '82: Northern Ireland v Honduras, from the Romareda Stadium, Zaragoza, introduced by Brian Moore. Also highlights of the France v Kuwait game; the commentator is Gerald Sinstadt. 10.15 News. 11.00 World in Action. 11.30 Thriller: "Anatomy of Terror." 12.50 am Close: Sit Up and Listen with Lord Beloff.

† Indicates programme in black and white.

All IBA Regions as London except at the following times:

**ANGLIA**
1.20 pm Anglia News. 2.30 Monday Film Matinee: "Trottie True," starring Jean Kent and James Donald. 6.00 About Anglia. 12.55 am Four Into One.

**BORDER**
1.20 pm Border News. 2.30 Film: "Hunters of the Reef," starring Michael Parks. 6.00 Lookaround Monday. 6.20 Fashion Today. 11.30 The Monte Carlo Show with Debby Boone. 12.25 am Border News Summary.

**CENTRAL**
1.20 pm Central News. 2.00 The Monday Screen Matinee: "Bachelor of Hearts," starring Hardy Kruger and Sylvia Syms. 6.00 Crossroads. 6.25 Central News. 11.30 Central News. 11.35 Barney Miller. 12.05 am Come Close.

**CHANNEL**
1.20 pm Channel Lunchtime News, What's On Where and Weather. 5.20 Crossroads. 6.00 Channel Report. 6.30 Happy Days. 10.58 Channel Late News. 11.30 Aujourd 'Hui en France. 11.35 Thriller: "Come Out, Come Out Wherever You Are." 12.55 am News and Weather in French.

**GRAMPIAN**
9.25 am First Thing. 1.20 pm North News. 6.00 North Tonight. 11.30 Country Focus. 12.00 Top Rank Fights of the 70s. 12.55 am North Headlines.

**GRANADA**
1.20 pm Granada Reports. 1.30 Our Natural Environment. 1.45 Monday Matinee: "The Sundowners," Starring Deborah Kerr and Robert Mitchum. 6.00 This Is Your Right. 6.05 Crossroads. 6.30 Granada Reports. 11.30 Danger UXB.

**HTV**
1.20 pm HTV News. 2.30 Monday Matinee: "Geordie," starring Alastair Sim and Bill Travers. 6.00 HTV News. 10.58 HTV News. 11.30 Mannix.
HTV Cymru/Wales—As HTV West except: 12.00-12.10 pm Dacw Mam Yn Dwad. 4.45-5.15 Sêr. 6.00 Y Dydd. 6.15-6.35 Report Wales. 11.00 Yr Wythnos. 11.30 Video Sounds. 12.05 [illegible] Week at 11.00).

**SCOTTISH**
1.20 pm Scottish News. 2.30 Monday Matinee: "Forbidden Knowledge," starring Anthony Quinn, Angie Dickinson and Broderick Crawford. 5.15 Traveller's Tales. 5.20 Crossroads. 6.00 Scotland Today. 6.30 [illegible]. 11.30 Late Call. 11.35 Nero Wolfe.

**TSW**
1.20 pm TSW News Headlines. 5.15 Gus Honeybun's Magic Birthdays. 5.20 Crossroads. 6.00 Today South West. 6.30 Happy Days. 11.00 TSW Late News. 11.30 Postscript. 11.35 Thriller: "Come Out, Come Out Wherever You Are." 12.55 am South West Weather and Shipping Forecast.

**TVS**
1.20 pm TVS News. 2.30 "Forbidden Knowledge" (TV movie); starring Anthony Quinn, Angie Dickinson and Broderick Crawford. 5.15 Watch This Space . . . That Monday Evening Feeling. 5.30 Coast to Coast. 6.00 Coast to Coast (continued). 11.30 Thriller: "It's a Mad Hang Up" 12.50 am Company.

**TYNE TEES**
9.20 am The Good Word. 9.25 North East News. 1.20 pm North East News and Lookaround. 2.30 Monday Matinee: "Gentle Spirit," starring Rex Harrison and Margaret Rutherford. 6.00 North East News. 6.02 Crossroads. 6.25 Northern Life with Tom Coyne. 11.00 North East News. 11.30 Hill Street Blues. 12.25 am Jobs.

**ULSTER**
1.20 pm Lunchtime. 2.30 Monday Matinee: "Forbidden Knowledge." 4.13 Ulster News. 5.15 Fimo Folk with Derek Griffiths. 6.00 Good Evening Ulster. 10.58 Ulster Weather. 11.30 Church Report. 11.58 News at Bedtime.

**YORKSHIRE**
1.20 pm Calendar News. 12.30 Monday Matinee: "Cardboard Cavalier." 6.00 Calendar (Emley Moor and Belmont editions). 11.30 Lou Grant.

## RADIO

(S) Stereo broadcast
(when broadcast on VHF)

**RADIO 1**
5.00 am As Radio 2. 7.00 Mike Read. 9.00 Simon Bates. 11.30 Dave Lee Travis. 2.00 pm Steve Wright. 4.30 Richard Skinner. 7.00 Stayin' Alive with Andy Peebles. 8.00 David Jensen. 10.00-12.00 Mark Ellen (S).
VHF Radios 1 and 2—5.00 am With Radio 2. 2.00 pm Don Durbridge (S). 4.00 Colin Berry (S). 5.45 News. Sport. 6.00 John Dunn (S). 8.00 Folk on 2 (S). 9.00 Humphrey Lyttelton with the Best of Jazz (S). 10.00 With Radio 1. 12.00-5.00 am With Radio 2.

**RADIO 2**
5.00 am Ray Moore (S). 7.30 Terry Wogan (S). 10.00 Jimmy Young (S). 12.00 Gloria Hunniford (S). 2.00 Wimbledon 82. 7.00 John Dunn (S) (continued from VHF). 7.45 World Cup Special: Honduras v Northern Ireland from La Romarede Stadium, Zaragoza. 10.00 Funny You Should Ask. 10.30 Star Sound with Nick Jackson. 11.00 Brian Matthew with Round Midnight (stereo from midnight). 1.00 am Encore (S). 2.00-5.00 You and the Night and the Music (S).

**RADIO 3**
6.55 am Weather. 7.00 News. 7.05 Morning Concert (S). 8.00 News. 8.05 Morning Concert (continued). 9.00 *News. 9.05 This Week's Composer:* Purcell (S). 10.00 BBC Concert Orchestra at Bedford (S). 11.35 Laulu-Miehet Male Voice Choir (S). 12.20 pm Cello and Piano recital (S). 1.00 News. 1.05 BBC Lunchtime Concert (S). 2.05 Matinee Musicale (S). 3.00 New Records (S). 4.55 News. 5.00 Mainly for Pleasure (S). 6.25 Music for Organ (S). 7.00 Independence—Poem by Andrew Motion. 7.30 A Polish Concert from the Sebalduskirche, Nuremberg, part 1: Penderecki, Waclaw Szamotul, Mikolaj Gomolka, Zielenski (S). 8.25 A Country Tapestry. 8.45 A Polish Concert, part 2: Penderecki, Szarzynski, Zielenski (S). 9.40 Araby (short story by James Joyce). 9.55 The Influence of Fantasy (S). 10.35 Six From South Kensington by Colin McLaren. 10.45 Jazz in Britain (S). 11.15-11.18 News.

**RADIO 4**
6.00 am News Briefing. 6.10 Farming Week. 6.25 Shipping Forecast. 6.30 Today. 8.35 The Week on 4. 8.43 Glyn Worsnip with recordings from the BBC Sound Archives. 8.57 Weather, travel. 9.00 News. 9.05 Start the Week with Richard Baker (S). 10.00 News. 10.02 Money Box. 10.30 Daily Service. 10.45 Morning Story. 11.00 News. 11.03 Down Your Way visits Barnstaple, North Devon. 11.48 Poetry Please! 12.00 News. 12.02 pm You and Yours. 12.27 The Day Job. 12.55 Weather, travel, programme news. 1.00 The World at One. 1.40 The Archers. 1.55 Shipping Forecast. 2.00 News. 2.02 Woman's Hour. 3.00 News. 3.02 Afternoon Theatre (S). 4.30 Letter from Belfast by Sam McAughtry. 4.40 Story Time. 5.00 PM: News Magazine. 5.50 Shipping Forecast. 5.55 Weather; programme news. 6.00 News, including Financial Report. 6.30 The News Quiz (S). 7.00 News. 7.05 The Archers. 7.20 Start the Week with Richard Baker (S). 8.00 The Monday Play (S). 9.15 Persona Grata. 9.30 Kaleidoscope. 9.59 Weather. 10.00 The World Tonight. 11.30 Today in Parliament. 12.00 News.

# Scargill rejects plans for pension fund investment

BY PHILIP BASSETT, LABOUR CORRESPONDENT

FUTURE PLANS by the miners' pension fund for overseas investment have been thrown into disarray by rejection of the proposals by Mr Arthur Scargill, president of the National Union of Mineworkers.

Mr Scargill's firm response to the fund's proposals, coupled with a week-end speech warning of new pit closures, clearly indicate the difficulties facing Mr Norman Siddall, new chairman of the National Coal Board, whose appointment is expected to be announced formally either today or tomorrow.

Both the NUM and the NCB have representatives who form the joint trustees of the £1.4bn miners' pension fund, to which all the 250,000 miners make payments.

At a recent meeting to discuss future investment strategy the fund's investment advisers put proposals to increase the level of overseas investment from the present proportion of about 15 per cent of the fund's assets.

Among projected investments are deposits in South Africa and the U.S., where the fund already owns, for example, the Watergate building in Washington which was at the centre of the 1970s U.S. presidential scandal.

Mr Scargill refused at the meeting to endorse the budget and expenditure programme, and the meeting was adjourned. NCB officials will try for a resumed meeting.

Mr Scargill said yesterday: "The union trustees have refused to authorise the plan because of its overseas investment. I am told hte move is illegal, but we do not accept that. We believe our position is perfectly clear and justified."

He said he would continue to block the scheme until the proposals for overseas investment were dropped.

The money should be invested in Britain, to create more jobs, though the NCB insisted that 85 per cent of the fund's investments, a higher proportion than most others, were already invested at home.

Disclosure of Mr Scargill's blocking of the plans follows a weekend speech by him at the Yorkshire Miners' Gala at Doncaster, where he warned miners to be prepared for possible strike action over proposed pit closures.

At least six, and probably more, of the closures proposed were in his own old area of Yorkshire, and no area was immune, said Mr Scargill.

Referring to the campaign to save Snowdown Colliery in Kent from closure, he said: "Miners must recognise that the defence of Snowdown represents the defence of all pits, and the union must stand firm and united in fighting to keep this pit open."

# Government expected to raise NHS offer

By Our Labour Correspondent

THE GOVERNMENT will today meet leaders of the health service unions and is widely expected to improve its National Health Service pay offer in advance of the next 24-hour strike set for Wednesday.

Prospects of an increased offer being made by British Rail, though, seem slim, even though BR is likely to meet the unions either tomorrow or Wednesday.

BR's largest union has threatened an all-out strike from a week today.

Mr Norman Fowler, Social Services Secretary, has called in the TUC health services committee and the non-TUC Royal College of Nursing for discussions this afternoon to hear reports of the efforts of Mr Pat Lowry, chairman of the Advisory Conciliation and Arbitration Service, and of the Government's response.

All sides were cautious yesterday for fear of prejudicing the delicately-poised negotiations. However, there was a clear insistence on the part of trade union leaders that the Government would exacerbate the current dispute if it called in the unions with no fresh proposals to put to them.

*One of the most widespread forecasts is that the Government will increase its 6.4 per cent pay offer to nurses to about 8 per cent, and raise the 4 per cent offer to other NHS workers accordingly.*

Some union leaders yesterday insisted that such a move would not be sufficient to avert the current action.

They thought the offer to ancillaries would have to be raised at least to match the current nurses proposal.

The attitude of the Royal College of Nursing may well be crucial.

In addition, much of Mr Lowry's efforts concentrated on the Government's long-term proposals for NHS pay, and today's talks may well see an amplification by the Government of previous hints, that ancillaries as well as nurses should be included in such arrangements.

On the railways, BR is hoping to coax its union leaders back into talks following a meeting today of the executive committee of the train drivers' union.

# TGWU urges Owen to quit seat over dockyards letter

BY OUR LABOUR STAFF

BRITAIN'S LARGEST union, the Transport and General Workers, yesterday called for the resignation from his parliamentary seat of Dr David Owen, who is fighting for leadership of the Social Democratic Party with Mr Roy Jenkins.

The TGWU is angry about a letter from Dr Owen to trade unionists in Devonport dockyard in his Plymouth constituency which asks them not to support the campaign against closure by workers in the Chatham dockyard.

Mr Mick Martin, TGWU public services national secretary, said yesterday that Dr Owen was trying to set one dockyard worker against another in order to save his seat. Officials pointed out the narrowness of Dr Owen's majority over the Conservatives in the last election.

In a reference to a recently-failed SDP parliamentary candidate, Mr Martin said: "I believe he should have the integrity of Bruce Douglas-Mann and give the Devonport voters the opportunity to decide whether they want him to continue as their MP."

Dr Owen's private letter says: "I do not believe it possible for the Government to continue with all four dockyards at present capacity and present levels of employment over the next four years. There is no escaping the reality that if Chatham is retained there will be cutbacks in Devonport.

"I did therefore want to urge you not to give support within the unions represented at Devonport for the retention of Chatham." Stressing that this is not a "selfish argument," Dr Owen warns of the possibility of a loss of 4,000-5,000 blue-collar Civil Service jobs at the Devon yard.

On the Falklands, Dr Owen says: "I am fairly sure that the Government will decide to retain a slightly larger fleet which I would welcome, provided we do not learn the wrong lessons from the Falkland Islands crisis and continue with a big ship navy."

● The Government has issued confidential advice notes to local authorities on the payment of social security benefits in the event of industrial action by white-collar civil servants. Action of this kind last year forced benefit payment to be switched to local councils.

In a letter to councils, Mr Eric Caines, regional director of the Department of Health and Social Security, stresses the department's determination to contain the effects of industrial action.

However, he adds: "We have to recognise that it may be physically impossible for us to contain the situation ourselves and in these circumstances we are bound to say that we should ask local authorities for their help."

# London Tube disruption over rosters likely today

BY PHILIP BASSETT

UNDERGROUND rail services in London are liable to serious disruption today over the introduction of new timetables. The industrial action would follow increasing disruption during the weekend.

Mr Bob Kettle, secretary of the National Union of Railwaymen's London Transport District Council, said yesterday that a complete shutdown of the Tube system today was "quite likely."

London Transport's (LT) new timetable is to come into force today, with new work rosters for its 15,000 Tube workers. Mr Kettle said LT was being "bloody-minded," and hoped the introduction of the rosters would be deferred. Union officials were particularly angry that the new rosters, which they claim mean job cuts, are to be introduced before any agreement on pay. Pay talks are set for Wednesday.

Industrial action hit the system again yesterday, following disruption on Saturday. Passengers on the Piccadilly and District lines were affected.

# BUSINESSMAN'S DIARY

## UK TRADE FAIRS AND EXHIBITIONS

| Date | Title | Venue |
|---|---|---|
| June 21-24 | Royal Highland Show (031-333 2444) | Ingliston Showground, Edbgh. |
| June 21-27 | International Food, Wine and Kitchen Exhibition (06284 2442) | Bingley Hall, Birmingham |
| June 23-26 | International Fisheries, Processing and Marine Equipment Exhibition—CATCH (0378 77966) | Aberdeen |
| June 27-29 | European Fishing Tackle Trade Exhibition—EFTTEX (021-780 4141) | NEC, Birmingham |
| June 28-July 1 | International Floorcovering Exhibition—INFEX (02432 5537) | Olympia |
| June 30-July 1 | Temperature Measurement and Control Exhibition and Conference—TEMPCON (0822 4671) | Wembley Conference Centre |
| July 2-4 | South of England Exhibition of Homes, Food, Trades and Leisure (0273 687351) | Brighton Centre |
| July 6-8 | Integrated Energy Exhibition (0272 572 624) | Bristol Exhibition Centre |
| July 8-11 | North London Home Improvement Exhibition (01-328 8581) | Alexandra Palace |
| July 13-15 | Environmental Engineering Today International Exhibition and Symposium—SEECO (0763 71209) | Wembley Conference Centre |
| July 13-16 | International Dental Exhibition—EXPODENT (01-935 8200) | Olympia |
| July 18-22 | Harrogate Gift Fair (0282 867153) | Exhibition Centre, Harrogate |
| July 26-30 | World Congress and Exhibition for Ultrasound in Medicine and Biology (01-486 6582) | Met Exbn Hall, Brighton |
| Aug. 8-12 | International Gifts Fair (01-855 9201) | Olympia |
| Aug. 12-14 | Wine and Beer Festival (01-778 1256) | Met Exbn Hall, Brighton |
| Sept. 5-12 | International Air Show (01-839 3231) | Farnborough |
| Sept. 7-10 | Label, Labelling, Marking and Identification Industry Exhibition—LABELEX (01-467 7726) | NEC, Birmingham |
| Sept. 7-10 | International Carpet Fair (021-705 6707) | Harrogate |

## OVERSEAS TRADE FAIRS AND EXHIBITIONS

| | | |
|---|---|---|
| June 21-30 | International Exhibition of Instruments and Equipment for Cardiovascular Treatment and Cardiosurgery—CARDIOLOGY 82 (01-235 2423) | Moscow |
| June 22-26 | International Port Technology Exhibition — PORTECH (08833 6155) | Singapore |
| June 28-30 | Videotex Exhibition (09274 28211) | New York |
| June 29-July 1 | Temperature and Transducer Conference and Exhibition — SENSORS AND SYSTEMS (02802 5226) | Houston |
| July 1-3 | Electrical Engineering Fair—ELTEC (01-486 1951) | Munich |
| July 21-24 | Security Asia Exhibition (0483 35085) | Hong Kong |
| July 31-Aug 3 | Hamburg Trade Days (0202 732648) | Hamburg |
| Aug 11-15 | International Trade Fair for Hotels, Restaurants, Catering and Food—HOTELRES (01-681 7688) | Bangkok |
| Aug. 18-21 | Business Equipment and Computer Exhibition — COMBEX (0483 38085) | Hong Kong |
| Aug. 19-21 | International Electronic Packaging and Production Equipment Exhibition—INTERNEPCON (0483 38085) | Singapore |
| Aug. 27-29 | International Men's Wear and International Jeans Fair (01-730 4645) | Cologne |
| Aug. 30-31 | Fashion Samples Fair—INTERCHIC (01-749 3061) | Berlin |
| Aug. 30-Sept. 2 | Indro-Perfumery Exhibition (01-486 1951) | Utrecht |

## BUSINESS AND MANAGEMENT CONFERENCES

| | | |
|---|---|---|
| June 21-22 | FT Conference: Portugal—a new outlook (01-621 1355) | Lisbon |
| June 21-22 | FT Conference: The Economics of Natural Gas Development (01-621 1355) | Venice |
| June 21-22 | AMR International: Cable casting in Europe—the commercial future (01-362 2782) | London Press Centre |
| June 22 | CBI: EEC Competition Policy in 1980s (01-379 7400) | Centre Point, WC1 |
| June 22-24 | The Laboratory of the Government Chemist: International Conference on Laboratory Design and Servicing (01-928 7900) | London, SW1 |
| June 23-24 | The Aviation Business Centre Energy needs aviation (01-439 1330) | Grosvenor House, W1 |
| June 24 | LCCI: Berlin (01-248 4444) | Cannon Street, EC4 |
| June 25 | ESC: Refusal to supply—cramping consumer choice? (057 282 2711) | Bowater Conf. Centre, SW1 |
| June 28-30 | IAEE-BIEE: International energy markets—the changing structure (057 282 2711) | Cambridge |
| June 30 | Energy Business Centre: Engineering Contracting and Sub-Contracting in UK Oil and Gas Projects (01-439 9021) | Metropole Hotel, Birmingham |
| July 1 | Institute for Fiscal Studies: Developments in American tax policy (01-839 7565) | Regent Palace Hotel, W1 |
| July 5-6 | MSS Computer and Business Consultancy: Management by objectives (Worthing 34755) | Worthing |
| July 7 | Energy Business Centre: China Offshore (01-439 9021) | Cafe Royal, W1 |
| July 8 | CBI: The Protection of Hearing (01-379 7400) | Centre Point, WC1 |
| July 8 | IPS: Inventory cost and control (0990 23711) | Kensington Palace Hotel, W8 |
| July 9 | ESC: Sponsorship—New media, new developments, new projects (057282 2711) | Selfridge Hotel, W1 |
| July 12-13 | Conference: Business reorganisation — a balancing of interests (01-621 1355) | Inter-Continental Hotel, W1 |
| July 15 | The Henley Centre for Forecasting: International business prospects (01-353 9961) | London Press Centre, EC4 |
| July 15 | American Chamber of Commerce: The Role of the EEC Institutions and the Major Current Issues Affecting Business (01-730 3176) | Hyde Park Hotel, SW1 |
| July 19-20 | IARC: Power and Political Behaviour in Organisations (01-486 6106) | Great Western Hotel, W2 |

*Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there has been no change in the details published.*





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# THE MANAGEMENT PAGE

EDITED BY CHRISTOPHER LORENZ

## Why Bendix is set on a path of constant change

**David Lascelles** looks at the significance of the restructuring which has left the U.S. industrial group with a pile of cash

IS IT "right" for a thriving industrial concern to sit on a huge pile of cash when it could be using it to lay the foundations for future growth? On the other hand, if cash offers the highest return, why plough it into bricks, mortar and machinery? And why be in a hurry to invest in a new business when markets are as uncertain as they are today?

These are the kinds of questions that Bendix, the large U.S. industrial components and machinery company, has stirred in the U.S. corporate world as its chairman, William Agee, pursues a strategy of what he calls "financial flexibility"—or what would be known in another jargon as "hanging loose."

Thanks to some well-timed divestitures over the last two to three years, Bendix has about $540m sitting in the bank and in liquid securities. This equals about a sixth of its total assets, and more than a quarter of its current assets. The money may not be turning out sparking plugs, aeroplane wheels or machine tools like the rest of Bendix. (Bendix has not made a washing machine for 40 years, incidentally.) But it is reaping a hefty rate of interest at a time when operating profits are slumping because of the world-wide recession.

For the first time in 12 years, Bendix expects its profits to be down this year. They were $453m on revenues of $4.4bn last year.

Bendix is headquartered in Detroit, a town where they pride themselves on getting their hands dirty, and some of Agee's fellow businessmen are not too happy about the way he sits on money. Their thoughts run something along these lines: a business is a business: it is not a bank or a pension fund or an investment firm. Money should produce things, not just more money. And, anyway, if everybody did things Agee's way, who would actually deliver the goods?

Agee is a clean-cut 44-year-old with a financial background. When he took over Bendix at the age of 39 he was the youngest chief executive of a major U.S. corporation. Since then he has, perhaps, become best known in the world at large for his romance with Mary Cunningham, his one-time vice-president of strategic planning whom he married this month. The affair brought embarrassing accusations that Cunningham had not been promoted for her business abilities alone. This triggered a major row at Bendix and caused Agee to complain of "damaging and hurtful innuendos."

But he enjoys the controversy over his business tactics and claims to feel "very comfortable" with what he is doing. "I am a contrarian by nature," he says.

As Agee explains it, there is more to Bendix's strategy than just a willingness to keep a large proportion of its assets in cash. He believes that in this day and age it is not enough for management to make the best of its traditional line of business. Corporate executives should feel free to pull out of unrewarding industries and move into new ones—or merely pull out and wait to see what happens, constantly reassessing the prospects.

His underlying goal has been to cut Bendix's dependence on the unpromising auto market and push the company closer to the forefront of high technology while lopping off some extraneous bits and pieces at the same time.

The company now has three main divisions: automotive (brakes, engine parts, friction materials), aerospace electronics (aircraft parts, electronic systems, instruments military equipment) and industrial (machine tools, robotics, industrial equipment). But in reshaping Bendix since he took over five years ago from Michael Blumenthal (who went to Washington as President Carter's treasury secretary) he has not been afraid to shrink the company down—which some people find shocking in this expansion-minded age.

His major divestitures have included automotive subsidiaries, large foreign holdings and a 20 per cent stake in Asarco, a leading U.S. copper producer. The last two were bought as inflation hedges and sold very profitably.

But while these moves filled Bendix's bank account to overflowing, it also left Bendix 20 per cent smaller in terms of fixed assets in the space of only a year because the proceeds were not redeployed.

Agee sees nothing wrong in this. "There is a time to sell and a time to buy, and if they come together that is nice, but it is not necessary."

But while Agee may now be sitting pretty with loads of money at a time when interest rates are yielding their highest real returns in decades, the sceptics say he has only done half the job. It is all very well to pull out of businesses, but how will Agee manage the re-entry?

For Agee, though, that misses the point. Bendix is not about to make a single huge acquisition which will put it on a new strategic course for good and all. It is the beginning of a process of constant change. The image used at Bendix is of a train speeding along the track picking up new coaches at the front and dropping off old ones at the back. Sooner or later, it becomes a new train.

Agee also happens to believe that a corporate investor gets a better bargain if he buys a minority stake in a company rather than taking it over outright. This is because minority interests are usually bought at the company's going share price while complete takeovers command a premium, a phenomenon known in Agee-ese as "the retail plus, wholesale minus paradox."

What with staying liquid and buying minority stakes here and there, Agee sees himself more as a manager of corporate assets than the chief executive of an industrial concern.

But how does Agee propose to spend his cash hoard? Not surprisingly, he is a little secretive about his plans, though he says he is looking at potential acquisitions in the high technology field. Meanwhile, though, he has not been entirely idle.

In 1980, he bought Warner and Swasey, one of the leading machine tool makers in the U.S., for $300m. Early last year he bought back a sixth of Bendix stock in the open market, a popular ploy these days because share values are so depressed. This had the effect of boosting earnings per share.

More controversially, during last winter Agee bought a 7.3 per cent stake in RCA, the broadcasting and electronics conglomerate which suffered a drastic slump in earnings because of problems in subsidiaries like Hertz and NBC. The investment stunned RCA and goaded its new chairman, Thornton Bradshaw, to issue a bitter denunciation of Agee, including a pointed remark about his "personal affairs."

Agee maintains that RCA is a good bet because its problems are fully discounted in the share price, and Bradshaw's efforts to put things straight can only do good. But Bradshaw is having a tough time turning RCA round, and RCA shares, which Bendix bought for just over $18, are now just over $16.

But if one strips Agee's philosophising down to its bare essentials, he is not just laying out the kind of conglomerate strategy perfected by masters of the art like Gulf and Western and Teledyne, which have both amassed huge, loosely strung business empires?

Agee recoils at the idea. "Teledyne has pursued a very successful strategy," he says. "But we do not have the same resources. Also I do not envision the day when our tenacles will be all over the place."

Also, for all of Agee's protestations about flexibility, Bendix is going to be stuck with industrial components and the auto business for a long time, as Agee admits.

Alonzo McDonald, the president, maintains that Bendix serves such a diversified range of the auto market that it will always find some buoyancy somewhere.

Slicing it another way, about half its business is in the replacement parts market as opposed to the original equipment market. Traditionally when one is down, the other is up: if people are not buying new cars, they are buying bits to keep their old ones going. And about half Bendix's vehicle business is in trucks, half in cars. By the time you shake all that down, it means only 10 per cent of Bendix's sales are to the U.S. new car market, which has suffered the severest decline.

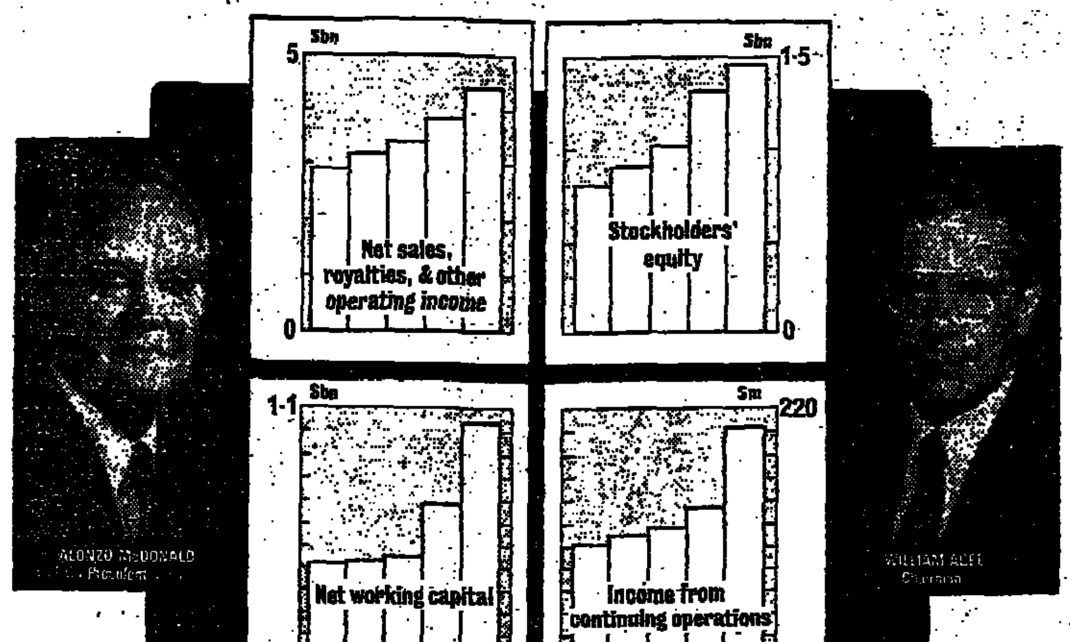
McDonald expects the next few years to be a "tough grind" when Bendix will have to find market niches and try to become the low-cost producer. But after that he foresees "terrific business" as the U.S. goes through a phase of sweeping re-equipment.

In the longer run Bendix expects to expand around its automotive business and strengthen its position in faster-growing markets. McDonald says that five years from now autos will account for 30-35 per cent of profits compared with 61 per cent five years ago.

But stimulating though the rapid pace of change at Bendix must be, it is also exhausting and—for employees sitting in coaches about to be dropped off at the rear—demoralising. Agee concedes that this is a problem and he tries to tackle it by being candid about his plans, though not always with the desired results judging by the sounds of dissent that occasionally escape from Bendix's offices.

A company that owns so much money is also a mouth-watering takeover target, which means Agee must look to his defences as often as he scours the horizon for fresh conquests. Bendix's market capitalisation is about $1.1bn. But a potential acquirer would only have to put up $600m because he could finance the rest of the deal with Bendix's own cash. Agee claims he loses no sleep over that danger, if only because a large chunk of Bendix stock is owned by company employees who, he thinks, would stick by him.

But whatever his own employees and his fellow businessmen might think of him, Wall Street likes Agee. His piles of cash, the prospect of huge deals and the excitement he generates makes for a lively stock and potential for rewarding mergers and acquisitions business. Even though Bendix depends on cyclical markets which are all weak at the moment, most major stockbrokers rate it a "buy."




**THE CHANGING FACE OF BENDIX**

**ACQUISITIONS:** 1978—20 per cent of Asarco ($128m); 1980—Warner and Swasey ($300m); 1981—buy back of 4m Bendix shares ($256m); 1981-82—7.3 per cent of RCA, $100m.

**DISPOSALS:** 1981—Forest Holdings ($425m); 1981—Asarco stake ($336m); 1980—Skagit winches ($16m plus); 1978—50 per cent interest in Ducellier ($26m); 1978—Mobile Home Systems ($25.8m); 1981—United Geophysical Corp., oil services, ($80m).

## The 'paragons' who hold the key to corporate success

HOW MANY middle managers do you know who, at one and the same time:

● Feel comfortable about dealing with change?;

● Have a clarity of direction which enables them to view setbacks "as temporary blips in an otherwise straight path to a goal"?;

● Are thorough in everything, including their office politics?;

● Have a participative management style?;

● Are persuasive, persistent and discreet?

Such paragons are what Professor Rosabeth Moss Kanter, in an article in the July/August edition of the Harvard Business Review, calls middle management innovators. To most of us, the list of their attributes may read rather like a specification for an idealised executive of all virtues, but Professor Kanter insists that such people are not extraordinary.

But as many chief executives have learned to their cost, they are certainly all too rare. The middle manager can prove a far tougher barrier to change than, at the top end of the organisation, risk-shy boardroom colleagues, or—at the bottom—recalcitrant trade unionists. It is on his or her resistance that so many brilliant growth strategies have collapsed; equally, it is the apathy or opposition of middle management which has helped torpedo various attempts to improve communications and consultation with the shop floor.

### Sandwich

To mix metaphors distastefully, the middle manager is the filling in the middle of the organisational sandwich: without him, the corporation loses its bite.

In the inimitable words of Professor Kanter, "top leaders' general directives to open a new market, improve quality, or cut costs mean nothing without efficient middle managers . . . able to design the systems, carry them out, and redirect their staffs' activities accordingly."

Nor should senior and top management have an exclusive claim to the initiation of new ideas, says Prof Kanter. If people are to be encouraged to tackle and solve tricky problems, she says, they need both the opportunities and incentives to reach beyond their formal jobs and use the operation's resources in new ways. Such opportunities can be created through a series of "organisational supports" for innovation.

● Multiple reporting relationships and overlapping territories. These force middle managers to carve out their own ideas and sell them to their peers in neighbouring areas, or to more than one boss;

● A free and somewhat random flow of information. "Data flow of this kind prods executives to find ideas in unexpected places and pushes them to combine fragments of information."

● Many centres of power with some budgetary flexibility. If such centres are easily accessible to middle managers, they will be encouraged to make proposals and "acquire" resources.

● A high proportion of managers in loosely-defined positions or with ambiguous assignments. Those without subordinates or line responsibilities who are told to "solve problems" must argue for a budget or develop their own "constituency."

● Frequent and smooth cross-functional contact, a tradition of working in teams, and emphasis on lateral rather than vertical relationships as a source of resources, information and support. "These circumstances require managers to get peer support for their project before top officers approve," says Prof Kanter.

● A reward system "that emphasises investment in people and projects rather than payment for past services."

Some of these conditions seem to be characteristic of new companies in not-yet-mature markets, Prof Kanter admits. But top decision makers in older, traditional companies can design these conditions into their organisations, and would be wise to do so, she maintains.

*"The middle managers innovator." Reprints available from Reprint Service, Harvard Business Review, Boston, MA 02163, USA. Telex TWX 710 320 6737.*

**Christopher Lorenz**

# TECHNOLOGY

EDITED BY ALAN CANE

**Elaine Williams** visits the Royal Signals and Radar Establishment where . . .

## Defence electronics need more cash

THE ROYAL Signals and Radar Establishment, Britain's main centre for defence electronics research, needs more funds to help it keep up with modern electronics research.

Mr Andrew Smart, RSRE's director, said the establishment was moving towards more capital intensive programmes such as the design of very complex silicon chips. "We are short of money to make best use of the people we've got," he said.

### Cutbacks

Like most Government establishments, it has not been immune to financial and staffing cutbacks. Over the past three years, the number of its researchers has fallen by about 20 per cent and the establishment is increasingly concentrating on the longer term research, and handing its findings to others for development.

At RSRE, which lies at the foot of the Malvern Hills some eight miles from Worcester, research is primarily aimed at new electronics devices which find their way into all forms of radar, communications and air traffic control systems, used by all the armed services.

Though the notices in RSRE's washrooms say "wash up, hush up and keep our secrets secret," there are many cases where it is willing to share its information to help British industry develop new products.

In fact, the establishment has won three awards for technological achievement and works closely with industry. For example work at RSRE has given the UK 50 per cent of the world market for liquid crystal materials which are used for digital watch and other types of display.

Part of its £40m funds each year come from the Department of Industry and the RSRE believes that it must continue to strengthen its ties with industry to help generate more revenue by selling its expertise.

The problem for RSRE is that much of its research is centred around electronics which requires expensive investment in capital equipment.

Dr Bill Fawcett, head of the Physics group, admitted that RSRE had a very poor facility for making integrated circuits compared with industry. The go-ahead was recently given for better equipment to improve processing of silicon.

Recently Dr Fawcett and his team made proposals to the Government for a £30m to £40m scheme to develop advanced silicon chips for future defence equipment. This would match a similar development programme now underway in the U.S. to produce smaller but more complex electronic circuits.

Such a programme lasting about five years would involve the UK electronics industry with the eventual hope of commercial spinoffs. Dr Fawcett has no idea what response the government will make to the proposals which he sees as important to maintaining superiority in weapons development.

Despite the constraints, several of its 100 or so research projects have been taken up by industry and are about to go into production. These include new types of liquid crystal displays using colour, portable satellite communications links, and lightweight field glasses which can pick out objects clearly at night.

And the organisation has found no less than three ways of helping helicopters avoid running into overhead cables. In the past six years there have been more than 40 incidents involving military helicopters.

### Lasers

British Aerospace Dynamics is about to start production of the simplest systems devised by RSRE which can detect only power cables by sensing the current flowing through the wires. It indicates where the cable lies in relation to the aircraft within a range of about 500m.

Mr Keith Potter at RSRE believes that lasers will eventually be used on helicopters. Research has shown that lasers can accurately detect even the smaller overhead telephone cable used in the battlefield.

Once a laser is installed, however, it can be put to other uses such as target recognition and terrain following.

Recently, the establishment began experiments with its latest version of side scanning radar installed for flight trials on a Canberra aircraft.

Side scanning radar is intended for reconnaissance work. As its name implies it scans to one side of the aircraft so that an area of interest some distance away from the flight path is covered. The greater the distance the aeroplane is from the target, the safer, in theory is the crew, and the enemy has no idea in which area the aircraft is really interested.

Researchers say that an aircraft can be tens of kilometres away from the target and the clarity of pictures obtained from the radar signals—after suitable computer processing—is such that moving objects such as cars can be seen. Outlines of houses and roads can be identified.

## Stock control by satellite on Texaco ships

BY ANDREW FISHER, SHIPPING CORRESPONDENT

MAKING MONEY out of shipping, especially in the beleagured tanker sector, has become a strenuous undertaking these days.

In a bid to hack away at some of its operating costs, Texaco, the U.S. oil group, is installing a new type of maintenance and stock control system—using satellite—on its UK flag ships.

Clearview Associates, a Bermula-based oil consultancy concern, will complete the first system for Texaco Overseas Tankship (TOT), based in London, on the 80,000 deadweight tonne Texaco Windsor in September. Installation on other TOT ships—there are 13 in all, including three laid-up—will be completed next spring.

According to Clearview, the system—the company says it is unique—can save over a quarter of operating costs. Other shipping companies are also showing interest and the system is adaptable to different types of vessel.

CV International, part of the Bermuda company, has contracted a UK company, Altergo Business Systems, to develop the computer system which TOT will use. Trials have already taken place on the Texaco Windsor.

The system will be divided into three areas: inventory stock control; preventative maintenance; and shipyarding (periodic shore work needed on vessels). These phases will operate together.

Thus the management teams on board ships and at fleet headquarters will have up-to-date information on which to base future work planning and budgeting.

The telecommunication system will use the new INMARSAT satellite to allow two-way links between the HQ and the vessels. The IBM System 34 at the London office of TOT will thus communicate with the IBM System 23 on the selected ships.

TOT said it chose Clearview because of its background in the oil world. TOT began looking at computerised preventive maintenance and stock control systems four years ago.

Texaco tankers will use the satellite system

It decided to go ahead with the project as part of its intended improvement in communications between the fleet and shore headquarters and devolution of management decision to each ship.

"The decision to undertake the work was taken in order to improve the cost and management of the fleet," said TOT. Texaco is interested in systems like Clearview's so it can use technical skills in the UK and continue to run its fleet out of Britain more competitively.

"The economics of running British ships are coming under increasing pressure and any gain in technology will help us in this way," it said.

Included in the computerised inventory stock control system will be a full listing of machinery and spare gear and full reordering information, with approved minimum and maximum levels. Automatic reordering will be possible as the minimum stock levels are reached.

The programme's preventive maintenance facility will have a complete list of work to be done in a five-year period for each vessel. Priority of work, its required frequency, the budget costs, planned start and completion dates, and estimates of spare parts and manhours by skill needed will be listed.

Thus, said Clearview, management will have critical data at sea and onshore which was not previously available.

## MEL looks for more visibility

BY GEOFFREY CHARLISH

THERE IS an irritating problem that besets any UK company supplying defence electronics. It is, simply, that although all sorts of high quality research and development may be in progress and excellent systems supplied to the armed services, very little, if any detail can be revealed.

This is one of the things that Kenneth Bacon, the new managing director of MEL (a Philips division) would dearly like to change, if only because it would help in the special export effort the company is making, with new offices in Washington, Toronto and in India.

Until recently MEL had been having a rather rough time. Over the last three years "several millions" of pounds were lost and the company had to shed well nigh a third of its workforce to match the size of the order book.

It suffered, in particular, from the loss of major Iranian contracts after the 1979 revolution, and was hit by the MOD decision to reduce the size of the Royal Navy surface fleet. Civil orders for MADGE, the helicopter microwave landing system, did not materialise.

MEL is now profitable, but that is not the end of the story, says Bacon, who is surprised at the poorly perceived image of MEL. He has appointed a PR agency and had the company logotype redesigned.

### Invisible

"We have been seen" he said in London recently, "as highly skilled but almost invisible."

Marketing, too, has come under the microscope and Michael Whiteman, from Ferranti Computer Systems, has just been appointed marketing director.

Bacon has, in addition, reorganised the company into three divisions: avionics, communications, and electronic warfare (EW). The greatest of these, he predicts, will be EW.

One or two of the products in these areas will certainly be boosted by events in the Falklands and Middle East. For example, MEL hints that wider use of Matilda by any naval force would offer about a 70 per cent chance of diverting an incoming missile such as Exocet.

*Kenneth Bacon*

Matilda, still classified officially, is known to examine radiations impinging on the ship from any direction, in frequency bands likely to be used by missiles.

Then, MEL's Protean chaff launcher can be deployed at exactly the right moment. It is essentially a mortar that throws up hot objects behind the ship to misdirect infra-red seeking craft or metal foil clouds (chaff) to confuse radar homing systems. The bridge gets a quick verbal message—generated electronically—with a rough bearing shown on a simple quadrant indicator.

MEL is also in the business of airborne early warning radar with a system called Sea Searcher. This has a higher power than some systems and a correspondingly long (undisclosed) range. The equipment will be going on to the Sea King helicopters, but time scales prevented its deployment in the South Atlantic where, it is understood, it would have been able to detect incoming aircraft and perhaps sea-skimming missiles. Its primary purpose is detection of surface vessels at long range.

The company supplies the Royal Air Force, too, and has just won a £2.3m order for EW equipment in conjunction with Ferranti.



## Electronic colour assay

AN ELECTRONIC colour measurement system just introduced into the UK by Johne and Reilhofer is transportable and is able to produce a complete spectral analysis of reflected light to give an immediate print-out of the results.

It can provide an accurate evaluation of any surface—paints, dyes and inks for example—and it enables colour matching to be performed to a degree of repeatability which, it is claimed, is virtually unobtainable by other methods.

The measuring head, about the size of a milk bottle, is connected by lightweight cable to a data processing unit. The operator simply applies the head aperture to the surface, automatically triggering a Xenon flash, the reflected light of which is spectrally analysed in about 20 milliseconds.

Measured outputs include tristimulus values and chromaticity co-ordinates, a graphic plot of spectral reflection and alphanumeric data of the reflection with a resolution from one to 30 nanometres. More on 05827 69987.

## Welding of studs by drawn arc

AN ELECTRONICALLY controlled drawn-arc stud welding system requiring no separate power source has been introduced by Crompton Parkinson, a Hawker Siddeley subsidiary.

The system comprises an integrated power source and controller which works off a single phase power supply in five ratings from 200V to 460V. It can weld studs from 3mm to 12mm in diameter.

# THE ARTS

## Architecture

**Colin Amery**

# The return of the neo-classical

Ideas percolate slowly. In the field of architecture it is sometimes difficult to detect consistent intellectual activity that is actually producing results that we can see being built around us. Ten years ago the Council of Europe arranged the enormous and beautiful Neo-Classical exhibition that filled most of London's galleries for a memorable period.

Today there is no doubt that it is these same Neo-Classical ideas that are filling the heads of students and architects alike. We have yet to see a fully fledged revival of Neo-Classical building but there are plenty of interiors in London that indicate a serious application of the principles. I will be writing about some of these in future with particular reference to the decorators and muralists who have recently completed good work.

It is more difficult for architects to realise their ideas and in England we will have to wait for the completion of the extension to the Tate Gallery by James Stirling to see concrete evidence of his conversion to the canons of classicism. The burghers of Stuttgart will not have to wait so long as Stirling's new art gallery and museum there is rising very quickly.

At the Architectural Association (34-36 Bedford Square, London WC1) there are two fine exhibitions that demonstrate an awareness of the architectural climate and a sensibility towards fine drawings and classical order. Friedrich Weinbrenner (1766-1826), if he is known at all in this country, is best remembered as the architect who gave the city of Karlsruhe its formal heart. He deserves to be better known as a draughtsman and a source of thinking about the development of architecture.

This well arranged exhibition shows his growth and training as well as his final accomplishments—all through drawings by his own hand. By examining his work the relevance of Neo-Classicism to our architectural dilemmas today becomes clear. He believed, like the architects of the Modern Movement, that architecture is the art of rational construction.

There are particular aspects of Weinbrenner's work that are supremely relevant today. He clearly understood the need for archaeological knowledge which leads to an ability to isolate and develop the elemental language of architecture. The pure geometry of the pyramid, the obelisk, the column and the rotunda is the architects' idiom, a medium of expression that can be shared with the past and the present.

In much of his later work Weinbrenner was trying to do what some of the more serious architects and teachers are attempting to do today and that is to establish a basic architecture that has cultural roots but is not dependent on the precise forms of the past. In a remarkable drawing for a series of uniform facades for the Lang Strasse in Karlsruhe (never executed) he shows that it is possible to dissociate the principles of proportion in architecture from the classical orders.

This takes us beyond Neo-Classicism into a world that de Chirico later made manifest.

For more than 25 years Weinbrenner put into practice his ideas in the centre of the city of Karlsruhe. In the linked areas of the Schloss Strasse (today Karl-Wilhelm Strasse) and the residential quarters of the city he realised an ensemble of buildings that has a unity of character equal to Helsinki or Leningrad.

The Mint, the former Assembly Room, the Evangelical Church and the whole of the Marktplatz show the strength of his urban vision imposed upon the existing Baroque structure of the city. There are those who sense a certain dryness in Weinbrenner's work but these drawings belie it—they are often remarkably sensitive.

On the first floor of the Architectural Association there is a good display of French Grand Prix engravings dating from 1774 and covering a period of about 40 years. More in the spirit of the Beaux Arts they should be looked at as exercises intended to help the student learn by copying.

In the Members Room, also on the first floor of the AA, there is a display of quite a different character. Zaha Hadid trained at the AA and is now teaching there. She also works on private commissions and this show is dedicated to the designs for a house for her brother at 59, Eaton Place, London. The scheme for the house is presented by a display of paintings that are explosive in character.

Architectural elements erupt inside tightly controlled urban spaces. Nature is kept firmly at bay and there is a chill intensity about her vision that belongs to the unknown future. Her show should be seen, as it is a rare opportunity to see the work of the younger influences that are using the AA as a base for their guerilla activities.

*Friedrich Weinbrenner* is at the Architectural Association until June 26, the Fitzwilliam Museum in Cambridge from July 13 to August 30, and the Mackintosh School of Art, Glasgow from October 1.

Towards the end of the Bacchanale—a Weinbrenner drawing from a classical fragment

## Drama/Holland Festival

**Michael Coveney**

### Controversial premiere from Pina Bausch

I have never seen anything like it. On Thursday night in Amsterdam, Pina Bausch's Dance Theatre of Wuppertal presented the world première of *Walzer* amid scenes of euphoria, derision, confusion and astonishment. The enormous Theatre Carré, which is like a municipal arena with Albert Hall pretensions, was packed to the seams with the city's beautiful people.

Some left, some booed, some cheered. But after four hours of what must be counted the most extraordinary exercise in audience-baiting since the heyday of the Living Theatre, detractors and enthusiasts alike rose to their feet to salute the company.

Breathtaking insouciance is the hallmark of Pina Bausch's work, allied to an indomitable lust to expose the personalities of her dancers. *Walzer* opens with a long sequence of going to war, the company crossing the stage in the formation of spitfire aeroplanes, lying on the floor, manipulating small paper boats and swimming against the nationalistic tides of Afghanistan, Belfast, Israel. Hours later we watch a film of a child being born. On the way, we have confessional interludes, frenzied scenes of eating and copulation, bestial playfulness.

A consistent theme is that of "performance" somehow obstructing the process of self-revelation. This is expressed most forcefully when Josephine Ann Endicott, one of the two Austrialian girls in the troupe, breaks free to eat an apple and declares that she can do anything she wants. She does so with a ludicrous exhibition of body stretching and tantrums.

Earlier, amid mounting catcalls, Arthur Rosenfeld sings a fragile parlour song. An incipient riot in the audience is immediately quelled by a heavily veiled female vision performing exquisite cartwheels around the periphery of the arena. Many of these sequences are repeated, testing the audience's patience before Ms Pausch suddenly organises something quite new to rivet the attention. After the childbirth, a concert is announced. A recording of a Schubert Impromptu is played with the company sitting in silent attendance in a semi-circle This echoes an earlier tableau in which a girl sits motionless through a recording of Piaf's "La vie en rose."

And yet all is forgiven and forgotten the minute the company launches into one of those wonderful, beautifully worked out perpetual motion set-pieces of interwoven, gliding choreography and seductive hand jiving.

*Walzer* does not provide as much sensual pleasure as the same company's *Kontakthof*, nor does it compete with the Proustian density of *1980*. But like all Pina Bausch's work, it does transmit a clinical, dangerous sense of theatrical experimentation. It challenges an audience to define its notion of theatre and in so doing, of course, unearths a few stunning possibilities of its own.

Equally exhilarating for me was *Enrico IV* performed by La Compagnia del Colletivo from Parma in the Theater De Brakke Grond. This conflation of Shakespeare's two history plays is part of a Shakespeare Project I hope to document more fully later in the year. The group has been together for 15 years and finds a stunning resonance in the conflict between anarchy and responsibility that has quite evaded the Royal Shakespeare Company in the Barbican.

The piece comes across as a rich comment on the evolution in the real world of the headily irresponsible 1968 generation here irresistibly personified in the Falstaff of Gigi Dall'Aglio.

One senior critic has complained that the RSC Prince Hal looks as if he has just come off his motorbike. Well, motorbikes feature heavily in this production, as do transistor radios, leather jackets, juke boxes and playing cards. Purists may retire to the library and ponder an awful paradox: the Parma collective has done away with directors.

## Holloway's 'Nursery Rhymes'/Wigmore Hall

**Max Loppert**

In three successive weekend concerts, the Nash Ensemble has compiled chamber music programmes into which premieres are being enticingly slipped. Between a euphonious but persistently undervitalized Mozart Trio for clarinet, viola, and piano (K498) and the Beethoven Septet, there was on Saturday placed the first public performance of Robin Holloway's Divertimento no. 3, subtitled "Nursery Rhymes." This is the shortened version of a work completed in 1977 and first broadcast two years later—for soprano (here, Rosemary Hardy) and wind quintet.

Those dates may be significant. In a series of recent compositions, this most civilized of the younger British composers has evinced a newfound muscular strength of utterance to counterbalance the appealing but sometimes rather soft quality of earlier works; whereas this Divertimento, though brilliant in conception and characteristically felicitous in much of its detail, struck me as decidedly soft-centred. As the subtitle indicates, it is a song cycle of nursery rhyme settings (words drawn from the Opies' *Oxford Dictionary of Nursery Rhymes*) shaped and developed into a full-scale chamber composition—at once diverting and intricate, childlike in atmosphere and sophisticated in working-out.

The Overture announces with light-hearted wit a "Boys and girls come out to play" motto; the music, framing melodies traditional in feeling rather than in actual origin, pursues contrasts between and combinations of solo voice and instrumental statement with signal virtuosity; and, as always in Holloway, influences (notably, to my ear, Mahler's Fourth Symphony, the "small" Stravinsky, and Britten passim) are creatively admitted to.

What proves ultimately hard to swallow is the sheer length of the piece (what must the even lengthier original be like?). In the elaborately spun Finale, "A gaping wide-mouthed waddling frog" is taken in full from verses one to 12; and a feeling sensed by the listener earlier hardens here into conviction, that Holloway's Straussian expertise in devising and developing shapely forms has run on well beyond the feasible limits of interest of the material or subject matter. There are moments of true bright-eyed sweetness in the Divertimento; a whole experience of it left a sugary satiety.

## A Doll's House/The Pit

**Rosalind Carne**

Adrian Noble's stirring production will surely be lodged in my memory for many years. More than 100 have passed since Ibsen wrote his masterpiece and it still has the power to shock, albeit through the pain of recognition rather than the scandal of what he dared to say.

Any treatment of *A Doll's House* depends, ultimately, on its heroine, and Cheryl Campbell is superb. Yet the doll cannot afford to be superb alone and Stephen Moore lends the necessary balance and intricacy to the text as her husband. This Torvald is no dull booby. Unimaginative he may be, but he is also a feeling man, with a glimmer of stultified intelligence. He is both oppressor and victim within the very social system which almost drives his wife to suicide, and we can sense the moral and emotional confusion behind his brutal outburst in the penultimate scene. We understand what he meant to her, and when she leaves we read his pain, head in his hands over the table where they held the only real self-congratulatory pedantry, discussion of their married life.

Graphic images of this past are conjured by the flurry of events which expose the hypocrisy of their partnership. Nora's brilliance and fun verges on hysteria, but Ms Campbell keeps the mood swings in firm control. She is deeply sensual and can be outrageously provocative, but her strength lies in her ability to switch like lightning when her partner's back is turned, offering us the depth of her terror.

Leonard Burt

Cheryl Campbell

Obviously she is a born manager, capable and realistic and despite the cruelties of the world she must face, we hold no fears on her departure. She should do well in the school of life. It is her husband who has lost the foundations of his existence. Her timing is perfect, whether babbling to her friend or in the slow, seductive pauses as she shows off her silk stocking to the unfortunate Dr Rank.

Rank himself, like all the remaining characters is notably low-key. John Franklyn-Robbins plays him as one of those familiar bores who cover their disappointments by vicarious indulgence in the lives of others. After this muted opening, his declaration of love is profoundly disturbing, both because of what it must mean to him and because of the horror of all it suggests to Nora. The doll's house, for all the frantic gaiety of its Christmas festivities, is clearly an abode where real love can never exist.

The translation by Michael Meyer is smoothly colloquial without missing a nuance.

## Simon & Garfunkel/Wembley

**Antony Thorncroft**

You do not trek out to Wembley Stadium for a concert; you go for an experience. After the travail of getting there; the hours of waiting for the artists to appear on stage, it is always a shock not to see them. Are those tiny figures in the far distance Paul Simon and Art Garfunkel? Surely Simon is not that small? But the sound system is filtering through Simon and Garfunkel songs and the thousands packed around the front of the stage are going mad with enthusiasm, waving their arms and whooping with delight. This must be it.

And once you have accepted not seeing and stop worrying about the sound quality the whole thing becomes tremendously worthwhile. Really you are paying homage to one of the greatest writers of popular songs of the past generation, Paul Simon, and welcoming the fact that after a decade he has got back with best buddie Art Garfunkel, he of the pained expression and the angelic high voice.

It is quite unnerving to sit for almost two hours while classic song follows classic song, memorable not only for their melody and lyrics, their variety and the beautifully blended voices in performance, but their relevance to the history of the past 15 years or more. American history, the moods of its young people, can be better recorded through Simon's songs than from any academic treatise.

Perhaps Garfunkel's voice has dropped a shade, perhaps the arrangements are funkier. What matters is grabbing again all the personal favourites, for quite rightly Simon and Garfunkel played their standards, with hardly a new song in sight (why has the creativity stopped?).

There was a tremendous ovation for "Bridge over troubled water," but I was struck by "Me and Julio," "America"; and Garfunkel's "Bright Eyes." About all the lack of posturing, the truth of the lyrics for the writer, the professionalism of the performance, dispelled the bleak surroundings. When, before the long encore, they sang "The Boxer" and the lines "after all the changes we are more or less the same" a great roar of relief came from the vast crowd. While Simon and Garfunkel play the past lives and we have all survived.

### BSO names new chief conductor

The Western Orchestral Society has announced that the Russian-born conductor, Rudolf Barshai will become the new principal conductor and artistic adviser of the Bournemouth Symphony Orchestra in September. He succeeds Uri Segal who, after two years in the post is leaving to concentrate on his work with the Philharmonia Hungarica and Israel Chamber Orchestra.

Mr Barshai made his debut with the BSO in 1981 and his first concerts as principal conductor will be in October.

## Buddy De Franco & Terry Gibbs/Ronnie Scott's

**Kevin Henriques**

Clarinettist Buddy de Franco and vibraphonist Terry Gibbs, both hugely experienced musicians in a wide variety of settings, have, rather surprisingly, been appearing together for only two years. Their initial joint appearance was, in fact, in this country at Ronnie Scott's in June 1980 and hearing them last week back at Scott's (where they remain until June 26) prompts the listener to wonder why it took so long for two such compatible players to get together and present such thoroughly entertaining jazz.

De Franco, whose technique has been compared favourably with Benny Goodman's, is a far warmer and, harmonically, a more adventurous improviser than Goodman, also a less romantic one. Gibbs, the extrovert of the duo, is a hard swinger in the Lionel Hampton mould. The De Franco/Gibbs musical empathy is remarkable and firm proof that when two virtuoso meet no ego bruising occurs because of unashamed musical respect.

Their two personalities are complementary. Neither tries to upstage the other and the perpetually gum-chewing Gibbs, whose speed on two mallets is dazzling, is content during De Franco solos to comp gently but meaningfully behind him.

The two-set programme is intelligently varied. Gibbs organises four and eight bar exchanges, chase choruses, counterpoint passages, mid-tune tempo changes and other devices which ensure listener interest never falters.

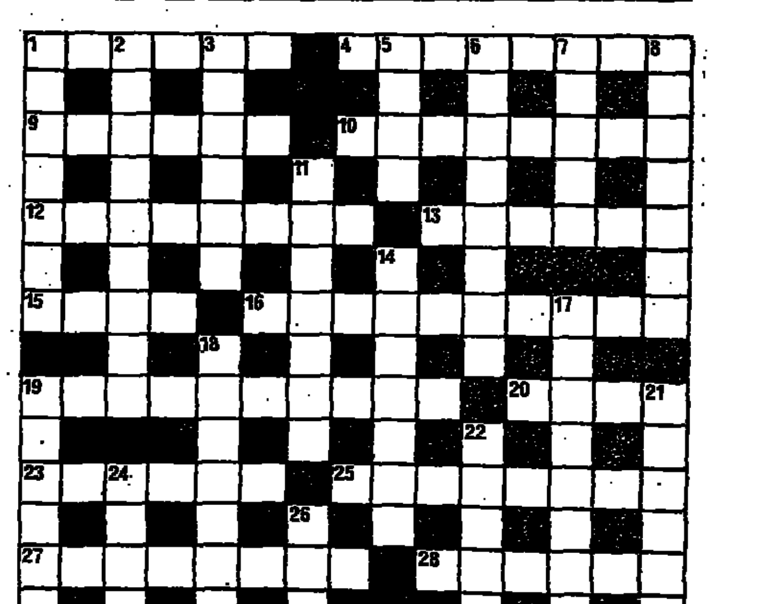
Both have solo features — on opening night De Franco's version of Duke Ellington's "All too soon" was movingly treated, his round tone exuding the song's bittersweetness while Gibbs' exploration of Michel Legrand's "What are you doing the rest of your life?" was deeply searching.

Apart from the familiar standards some of Gibbs' own compositions are included, one of which, "Samba Wazoo," is a breakneck workout for both. De Franco fingering fleetly and so accurately and Gibbs moving at a furious lick which is a reminder that as a child he won a talent contest for playing "The Flight of the Bumble Bee" in 45 seconds! The two even risk comparison with Benny Goodman and Lionel Hampton by playing "Airmail Special," a questionable choice.

The impressive first night sets were enhanced in no small way by the — for once — outstandingly sympathetic British rhythm section. Alan Branscombe on piano, Kenny Baldock on bass and drummer Tony Kinsey provide the zestful, swinging backing the two Americans respond to eagerly.



## F.T. CROSSWORD PUZZLE No. 4,902



**ACROSS**

1 Show-stopping number (6)
4 Case of the non-striking poet (8)
9 Hurry up progress (4, 2)
10 Remove hair in trouble (8)
12 Did slope somehow become unbalanced? (8)
13 Told to play stand-off in one's own interests (6)
15 You old-fashioned artist returning for a period (4)
16 Writer depressed by censor (4, 6)
19 December 25 is modern (7, 3)
20 Influence in force (4)
23 Stylish set you begin (6)
25 Sit down but not necessarily in church (4, 1, 3)
27 Disgraceful jingoistic bombbast (8)
28 Mums hasten to club (6)
29 Key to puzzle offered by cord—do we switch? (4, 4)
30 Footballer who doesn't go off (6)

**DOWN**

1 Capacity of university department (7)
2 Team panel, anyway a panel (4-5)
3 Chance to watch TV (4, 2)
5 Adamson raised to make trouble (4)
6 Yorkshire must be severely beaten (8)
7 Scene of action found in square naturally (5)
8 Quite enough on one's plate (7)
11 One enters immovable property in all truth (7)
14 Escape? Don't be silly (7)
17 Meat for idiot to cut (5, 4)
18 Material for pallet coming to flower (8)
19 Fight shy of sea area (7)
21 Disreputable outfit used in driving (3, 4)
22 Composed appointment in south-east (6)
24 A conflict over key prize (5)
26 Single-minded expert (4)

The solution to last Saturday's prize puzzle will be published with names of winners next Saturday.

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Monday June 21 1982

# The Militant report

THE REPORT on the Militant Tendency within the British Labour Party turns out to be a brief, tactful document and in many ways a statement of what was already known.

Clause II Section (3) of the Party's Constitution says: "Political organisations not affiliated to or associated under a National Agreement with the Party on January 1 1946, having their own Programme, Principles and Policy for distinctive and separate propaganda, or possessing Branches in the Constituencies or engaged in the promotion of Parliamentary or Local Government Candidatures, or owing allegiance to any political organisation situated abroad, shall be ineligible for affiliation to the Party."

The Militant Tendency has long been thought to be in breach of that clause. The latest report, commissioned by the Party's National Executive Committee, confirms that belief, though the evidence is not to be published, or at least not immediately.

### Conflict

The question for the Labour Party and especially for Mr Michael Foot, the Party leader, is what to do about it. The report has the merit of offering an initially discreet approach. It states that the Militant Tendency is "in conflict with" the section of the Party Constitution quoted above and it recommends that "any group found to be in breach of these rules should be given a period of not more than three months in which to put an end to such infringements." In other words, the Militant Tendency must either disband, or fundamentally alter its arrangements, by about the end of September when, as it happens, Labour will be holding its annual conference. There seems little doubt that Mr Foot and a majority of the NEC—though perhaps a small one — will accept this recommendation.

How the Militant Tendency and some of its covert supporters will react is, of course, less clear. The Tendency so far has offered only a few token concessions and another far left Labour organisation, the Campaign for Labour Party Democracy—sometimes associated with Mr Tony Benn, seems to be threatening resistance to even the modest reforms proposed in the report.

Here the report itself has some pertinent observations. It is a question of perspective. The Militant Tendency is undoubtedly an infiltrationist group which has quite different aims from the bulk of the Labour Party. Mr Foot described it some time ago as a "pestilential nuisance." It has clearly made recent Labour Party conferences more difficult and—to the outside observer at least—more unattractive by the way it has concentrated on mobilising its forces in support of particular resolutions. Its main objective seems to have been to reform the Party organisation in such a way as to be able to control policy later: hence the stress on matters like the method of electing the Party leader and who has the final say in the wording of the Party manifesto.

Yet it is a large mental leap from there to go on to say that the decline of popular support for the Labour Party is due entirely to the rise of the Militant Tendency. As the report points out, many members of the Party share some of the Tendency's aims, but are in no way subscribers to the organisation. Still more to the point is the report's remark that the Tendency "can exercise an influence out of all proportion to their numbers simply because many of our affiliated organisations do not take up their full delegation entitlement. In particular, if affiliated trade unions exercised their full entitlement to delegation the influence of the Militants would be negligible at constituency level."

### Decline

That is the heart of the matter. The Labour Party is in decline but the main evidence of the decline is that it is losing its most natural and traditional supporters. That support is most likely to have been lost because the Party has failed to up-date its policies to changing social conditions and failed to maintain its organisation in the country.

The inroads made by the Militant Tendency are a symptom rather than a cause. Mr Foot will have to fight the Tendency, of course: indeed has no alternative but to do so. Yet the report is subtle in implying that it should not be a fight for its own sake. The principal aim must be to win back those supporters who only a few years ago would have voted Labour almost as an act of nature because they believed it was the party of fairness and greater equality. The formation of the Social Democratic Party has made the task more difficult, but not impossible.

# How India earns aid

A CONSORTIUM of governments concerned with aid to India held an annual meeting in Paris last week and agreed to provide the country with an encouraging amount of aid over the coming year. The disbursements of about $1.7bn expected to result before next year's meeting will imply the real increase of about 5 per cent in the flow of concessional finance which the country has been hoping for.

The outcome is heartening because, at a time of recession and widespread budgetary stringency, it is right that the World Bank, the International Monetary Fund and the governments of the industrialised countries should co-ordinate their efforts and preserve a reasonable flow of funds to a sub-continent with such undeveloped economic potential.

### Caution

The argument is strengthened now that India has become somewhat less inward-looking and restrictive in its economic policy and has—under the anxious eye of the IMF, which has been criticised for making too large and too lax a loan to India—imposed a more cautious fiscal and monetary management.

The annual aid consortium meeting was established in 1957 as a result of a deterioration in India's trade balance, and just such a deterioration threatens again today. The fall in commodity prices and the sustained cost of imported oil has resulted in a marked worsening of India's terms of trade. In the year to April 1982 India's current deficit widened from $3.2bn to $4.3bn. The IMF and the World Bank both made it clear in Paris that India was pursuing a programme of economic changes more important and promising than any in the past decade and that balance of payment difficulties should not be allowed to scare India back towards protectionism and stunted growth.

### Poverty

Scandinavian countries at the Paris meeting objected to this macro-economic argument for aid: it lost sight, they argued, of the abject poverty which is so widespread in India and which should be the fact most aid givers focus upon. Poverty is indeed a moral imperative behind aid. But it is important to remember that, particularly in an economy as vast as India's, the significance of aid, and the criteria by which it is judged effective, relate much more to the balance of payments than they do to the scale and the direction of investment within the whole economy. Aid and World Bank programmes can have a big impact on the former, but can do very little to alter the latter.

Viewed from this perspective the desire of most donor countries to couple aid with trade looks rather less counter-productive. But the case against aid via grandiose industrial projects, more appropriate to the vendor's unemployment problem than to the recipient's economic development, still stands. There is, moreover, some tendency for industrialised countries to over-emphasise India's new attractions rather in the way they went overboard for China during the 1970s.

### Restrictions

The quid pro quo for last week's concerted action to boost aid to India must be continuing momentum in the Government's efforts to revitalise business conditions inside India. February saw an encouraging set of measures designed to free the import of capital equipment and thus increase the efficiency with which Indian goods can be produced for export. It was followed in April by a lifting of restrictions on the production capacity of foreign companies and by the larger Indian groups. But the latter measures proved a disappointment: businessmen found that the new concessions to expand capacity were hedged about with conditions and subject to elaborate registration procedures. The old habits evidently die hard and the Indian Government's apparent willingness to change its attitude to industry cannot yet be taken for granted.

FRANCE AFTER DEVALUATION

# Socialism with an austere face

By David Housego in Paris

"THE ONLY chance now of saving the Socialist experience" was the grim response of one senior party official to the austerity measures just announced by the French Government.

For the Socialist hierarchy (not to mention the Communists) it has been a bitter pill to find that the hopes of 12 months ago of charting an "alternative" economic strategy towards higher growth and full employment have been so humiliatingly swallowed up by a second devaluation, expenditure cuts and a prices and wages freeze.

Among Socialist deputies in the National Assembly there is immense disgruntlement at being insufficiently consulted and that the Government should have so mishandled both the management of the economy and the presentation of the measures. But in the last resort they are ready to accept the package because the other options are far more unpalatable.

There are no advocates within the Government for anti-inflationary policies requiring such tight fiscal and monetary restraint that they would bite into public sector investment and drive unemployment up to 3m. That was the recipe of M Raymond Barre, the former Prime Minister, and President Mitterrand would have faced a revolt if he had proposed it. This administration still believes it can bring inflation down and keep employment up.

The other serious alternative was for France to have pulled out of the European Monetary System (EMS), thus retaining the Government's freedom to pursue its own economic policy without the constraints of exchange rate discipline. This was under consideration in the Cabinet and remains a possibility should there be a further devaluation.

In the end M Mitterrand had no stomach for the even larger devaluation of the franc that this would have entailed and the retreat of France behind protectionist barriers that would have put an end to M Mitterrand's hopes of enlarged European co-operation.

As against these negative factors, the consolation for the Socialists is that they hope to have preserved their plans for a massive investment programme to restructure and modernise French industry using the nationalised sector as the launching pad. The major accusation that they make against M Barre (and even more against Mrs Thatcher in Britain) is of having presided over the steady erosion of investment and research in industry, thus leaving France's industrial fabric much weakened.

At the Elysee the calculation is that the investment to be made in the near future will start to bear fruit by 1985-86 (in time, it is hoped, for the crucial legislative elections in 1986). Thus, though the Government is in for a rough patch over the short term, the hope is that France will emerge from the recession with a more muscular industrial capacity than most of her competitors.

For the radicals within the Socialist party a key element in these plans is the "reconquest of the domestic market"—winning back in machine tools, electronics, furniture, toys and other industries what has been lost to imports.

To achieve these ambitious long-term goals, many Socialist militants champion even greater rigour now than the Government is prepared for. The left has its own tradition of austerity unconnected with the "Right wing" stabilisation measures of M Barre in 1976 that had the unions demonstrating on the streets. It was M Pierre Mendes-France (the former Prime Minister and now the "conscience of the left") who unsuccessfully tried to persuade General de Gaulle after the war to cut back on consumption so as to leave more resources free for investment.

But in calling for sacrifices from the unions at last Thursday's tripartite meeting, the Government believes that the context today is totally different from that of 1976 when M Barre preached austerity. It comes on the heels of a year in which France has seen the working week cut; wages rise (hourly earnings went up 18 per cent in the first quarter), holidays lengthened and social security payments increased. No other western nation has lived out the recession in such glorious style.

Most unions resist this logic. Potentially the most dangerous opposition to the drop in living standards that now stares France in the face comes from the Communists, and the Communist-led CGT union. "There is no question of austerity," Communist leaders have been saying. But the Socialists believe that they have their coalition partners by the ears. "They have now to live up to their responsibilities" as a Minister said with a grin this week.

For the Communists are caught in the trap that they vowed they would always avoid—that of being members of a left-wing coalition imposing unpopular measures on their supporters. To quit now, however, would risk damaging their already enfeebled position with the electorate.

Until the austerity package M Mitterrand's personal popularity seemed to have escaped the electoral setbacks the Government has received—most notably the unexpectedly large reverse in the cantonal elections in March. He has benefited from the national role of the Presidency under the 5th Republic to stay above the fray. But it would be surprising if his popularity did not now slip. The French take badly to two devaluations within eight months and will probably react even more strongly to a drop in living standards.

The luxurious splendour that surrounded the Versailles economic summit was a bad political blunder coming as it did only a week before the announcement of austerity measures.

In the inquest now going on into the events leading up to the devaluation it becomes increasingly clear that M Mitterrand's failure to take decisions earlier cost France dear in terms of exhausted foreign exchange reserves and costly borrowing that has now to be repaid to the Germans out of devalued French francs. It is being held against M Mitterrand that he has been too much out of the country and too inattentive to economic affairs.

> The difficulties ahead in attempting both to bring down inflation and sustain employment are enormous

The danger signals of a widening trade deficit, an inflation rate well above that of France's competitors, of spiralling budget expenditures and mounting pressures on the franc, had been flashing since early in the year. M Jacques Delors, the Finance Minister, warned the President in February that the deflationary policies being pursued in the U.S. and elsewhere had left France's expansionary strategy perilously out of step. His increasingly pressing advice on this (as on a number of other issues) went unheeded, damaging his international credibility as the guardian of France's public finances.

Indicative of this came the leaks from West Germany that France might leave the EMS and that M Delors would resign.

It is now clear that there was a sharp tussel in the Government over whether France should withdraw from the EMS. "M Delors had to fight like a dog," officials say. M Michel Rocard, Minister of the Plan, had long favoured France's adopting a floating exchange rate as giving the Government more room for manoeuvre. Other supporters included M Chevenement, Minister for Research, and M Anicet Le Pors, the Communist Minister for the Civil Service, both of whom seemed willing to accept the tighter import controls that would have had to accompany a "go it alone" policy.

M Mitterrand's instincts were to stick with the EMS as a major plank of European co-operation. But that he had his doubts was reflected in his remarks to American journalists at the end of May that he had no "religious attachment" to the EMS. The final decision to devalue and remain within the EMS was taken at Versailles where the French pressure for greater international monetary co-operation closed the door to pulling out of the EMS.

At the same time M Mitterrand's acceptance of the goal of greater convergence of economic policies and his pressure for a tougher wording in the final Versailles communique on fiscal restraint were a tacit admission that France could not pursue a reflationist policy alone. By then, in any case, the French dash for growth had crumbled. Real GNP fell in the first quarter. But France was still saddled with an inflation rate three times that of West Germany and soaring trade and budget deficits.

The difficulties ahead in attempting both to bring down inflation and sustain employment are enormous. The Government intends the wages and prices freeze as shock treatment to curb inflationary expectations that were carrying France's inflation to an annual rhythm of 14 per cent for the first half. Even so, the practical difficulties of enforcing strict price controls over the summer holiday period — when margins normally sneak up — are immense.

Unions have no stomach for the loss of purchasing power involved in the wages freeze (when some prices will still be going up). Many employers also have no wish to stir up discontent by withdrawing wage increases promised for July and notified to workers.

It seems almost inevitable that companies, whose profit margins are already depressed, will cut back investment in the face of the uncertainties of a freeze on prices and the distribution of dividends. The much larger volume of subsidised credits that the Government has made available does not offer a compensating incentive. Among the radicals in the Socialist Party, the reluctance of companies to invest serves to strengthen the case for greater State intervention in the economy.

M Delors has set his sights on reducing the budget deficit from 3 per cent of GNP to 2-2½ per cent in the years ahead. But it remains difficult to see how the Government will hold the budget deficit to FFr 120m next year after FFr 107m this year (a reduction in real terms) especially as the President has publicly foregone additional taxation. But the tougher budgetary policy will enable France to borrow more easily abroad.

No measures have been announced for containing monetary growth. The Ministry of Finance is sticking to its targets of 12½-13½ per cent growth for the year though the money supply has been expanding significantly faster recently. Tighter monetary controls are unpopular with some of the Socialists.

The anomalies and contradictions within the Government's policy remain numerous. It is still hard to see how France can match Germany's inflation rate of 4-5 per cent a year (France never did under former President Giscard d'Estaing) and thus avoid a further devaluation.

Should present policies fail and the franc again come under pressure, the question of France's remaining in the EMS will be posed more dramatically. There is no guarantee that the answer will be the same.

Ministers Jacques Delors (left) and Michel Rocard: a sharp tussle over EMS withdrawal

# Men & Matters

## Master minds

Apropos the Denning Succession Stakes—otherwise known as the *40,000 Guineas* (that being approximately the annual prize money for the winner)—I'm reminded of the girl who'd "danced with a man, who'd danced with a girl, who'd danced with the Prince of Wales."

I've talked to a man, who'd *talked to a girl*, who'd talked to an Appeal Court judge, who reportedly said that the consensus among his fellow Lords Justices was that the next Master of the Rolls should be either Lord Justice Templeman or Lord Justice Oliver.

My man at the High Court professes himself undismayed by this inside information. He stoutly avers that Lord Justice Donaldson is still in with a good chance.

However, the latest intelligence has it that a dark horse has appeared among the runners —none other than Sir John Arnold, President of the Family Division and one of the triumvirate of top judges, along with the MR and the Lord Chief Justice.

Given that he outranks his rivals he must be regarded as a very serious contender.

Meanwhile, there is a whisper in the Inns of Court that Lord Bridge, a fancied runner from the House of Lords, is coming up fast on the rails and a casual visitor to the Lords last week might have been excused for thinking that Bridge was engaging in a bit of subtle politicking at the expense of a rival.

He and two other Law Lords were hearing an application for leave to appeal against a judgment of Lord Justice Templeman.

Bridge suggested that Leolin Price, QC, for the applicant, was arguing that the Templeman judgment was "all rubbish."

Price agreed that "your lordships's formulation encapsulates my argument with elegance and punch."

To be fair to all concerned, I should record that the application failed, and the Templeman judgment, rubbish or not, stands.

## Plugging away

The modern equivalent of taking coals to Newcastle is, I suppose, taking British high technology to Japan. The latest to attempt such a herculean task is Norman Lamont, Minister of State for Industry.

On a recent visit to Japan with a party of British businessmen, he sought to take advantage of the reduction in Japanese tariffs by emphasising the attractions of UK goods. Lamont presented some of his hosts—the heads of leading local banks and industrial companies as well as of Miti, the international trade and industry ministry—with the best selling Sinclair ZX81, claimed to be the cheapest small computer on the market. Selling for £70 in the UK, half a million have so far been bought worldwide.

According to Lamont the hosts were amused and pleased with having British technology plugged in their offices. But whether it turns into a fashion remains to be seen.

## Ranald's return

Eleven years after retiring from the City of London with a £500,000 nest-egg at the age of 38, Charles Ranald has returned to offer a million $10 shares in Forexfund, a managed currency fund based in Bermuda.

Ranald made his name, and money, during the 1960s when he built up the Castle Britannia group of unit trusts which, by the time he sold out to Jessel Securities, was handling nearly £20m for over 50,000 investors.

Concluding that unit trusts had become "a big man's sport," Ranald departed for Monte Carlo with plans to indulge his passion for flying by running a shuttle service around the South of France.

"That didn't work out," he says—though for a time he ran an air-taxi business between the French Riviera and Geneva and Zurich.

Ranald turned to various other business enterprises, but tells me he began to take a serious interest in currency movements after "catching a cold" in the Swiss property market in 1974 when sterling fell against the Swiss franc.

As president and chairman of Forexfund, he is now back in the City to take advantage of the freedom British investors have gained from the lifting of exchange controls.

But it is just as well he still loves flying. For while the fund is based in Bermuda and investment advisers Drayton Montague in London, the subcription and redemption side of the business will be handled from Guernsey, and Ranald's home will remain in Monte Carlo.

## Weather eye

Within days of the Falklands task force leaving Portsmouth, the Financial Times was providing its readers with daily forecasts of the weather in the South Atlantic—in spite of the fact that the Met Office, on orders from its paymasters at the Ministry of Defence, was politely refusing all requests for information.

For that service, readers can thank a company called Oceanroutes, based in the United States but with UK offices in Gravesend, Kent, and Aberdeen.

Now part of the Swire shipping group, Oceanroutes was set up by meteorologist Howard Kaster in Palo Alto on the Californian coast 30 years ago to provide weather forecasts for the local shipping industry.

In 1970 it extended its operations into Europe and the Far East and has since grown into the world's largest private marine weather service.

Its main business is providing shipping companies with routes that will avoid bad weather at sea—thus ensuring the fastest, safest and most economical passages. But, as at Aberdeen, it also services the off-shore oil and gas industry with forecasts and undertakes weather-related engineering studies.

Linked to Palo Alto's computer, the Oceanroutes offices have access to a vast international weather observation network including satellites, government weather stations and the co-operative crews of merchant ships at sea.

## Liberty bill

The United States is faced with another $100m bill for preserving liberty. This time it is the 96-year-old Statue of Liberty in New York Bay that needs urgent safe-guarding. Its green-tinged copper skin and iron infrastructure are weakening with age.

Chrysler Corporation chairman Lee Iacocca is heading a fund-raising commission appointed by President Reagan to raise the money needed to restore the 305ft statue and create a memorial to America's immigrants on nearby Ellis Island.

Iacocca, whose parents were among the 12m immigrants who landed at Ellis Island between 1892 and 1954, aims to finish the work in time for centennial celebrations in 1986.

## Endless trouble

Hypochondria—an infinite capacity for taking pains.

*Observer*

FINANCIAL TIMES SURVEY
Monday June 21, 1982

# 香港 HONG KONG

Hong Kong: the Chinese way

Outstanding improvements in social conditions and rapid economic growth are the legacy which Sir Murray MacLehose left behind on his retirement as Hong Kong's Governor earlier this year. The issue which will dominate the term of his successor, Sir Edward Youde will be the colony's status vis-à-vis China as the expiry of the lease on the New Territories draws closer

## CONTENTS



Editorial production: Arthur Dawson
Design: Philip Hunt

Hong Kong's future status with China will dominate the issues facing the new Governor, says **Robert Cottrell**

# An unflagging belief in the profit motive pays off

OF THE MANY tributes paid to Sir Murray MacLehose on his retirement after more than a decade as Governor of Hong Kong, one of the most concise came from Mr John Bremridge, the Financial Secretary, in his February budget speech.

"In these years of your governorship," said Mr Bremridge, "Hong Kong has experienced remarkable growth, often in the face of general adversity. In real terms our total exports have increased by 182 per cent, our GDP by 162 per cent and our per capita GDP by 106 per cent despite a population increase of 1.1m. We still have no serious unemployment problem . . . in housing, health, education, social welfare, recreation, law and order, transport and many other fields these past ten years have seen outstanding improvement in the living standards of our people. What has been done—which all can see—stands as your monument."

The bald figures within that

## It has until now staved off the current recession

lapidary paragraph summarise the remarkable growth achieved by Hong Kong over ten years during which the global economy suffered two recessions, one in the aftermath of the oil shock and the second at the turn of the decade—from which the world has yet fully to recover.

Hong Kong too staggered through 1974 and 1975, achieving only marginal real GDP growth. But in 1976 it leapt into recovery, making up the backlog with real GDP growth of almost 19 per cent. It has until now managed to stave off the effects of the current recession, with real GDP growth last year of 10 per cent, though this year's official forecast of 8 per cent now looks like a remarkably tough target to meet.

Yet the seventies were not the years of Hong Kong's economic miracle. That took place in the fifties, when a war-shattered economy picked up its stretcher, walked and then started running. The industrial momentum built up through the sixties was sustained through the seventies to provide the good years on the back of which a broader social prosperity could be built and in which the future could be studied contructively rather than just hopefully.

Sir Murray MacLehose, soon after his arrival as Governor, decided that Hong Kong's pressing need was for an accelerated public housing programme. In the last ten years that programme has yielded 31 new housing estates, so that now around 40 per cent of Hong Kong's population lives in accommodation provided or subsidised by the government.

If the new towns with their hundreds of thousands of inhabitants are the most dramatic legacy of the MacLehose years, there are others too. The independent Commission against Corruption was created, answerable to the Governor and charged with rooting out organised corruption. Building work above ground was complemented underground, as the Mass Transit Railway (MTR) snaked its way beneath Kowloon. Backed by HK$ 4.7bn of Government equity capital, the MTR is now two-thirds complete and carries 1m passengers every working day.

*The Advisory Committee on* Diversification (ACD), was another manifestation of the MacLehose years, a high-powered think-tank which reported in 1979 on the potential for economic growth and the infrastructure necessary to support it. Hong Kong's traditional manufacturing base, textiles and garments, had become in one sense too successful. Protectionism threatened and the ACD looked to a broader economic base.

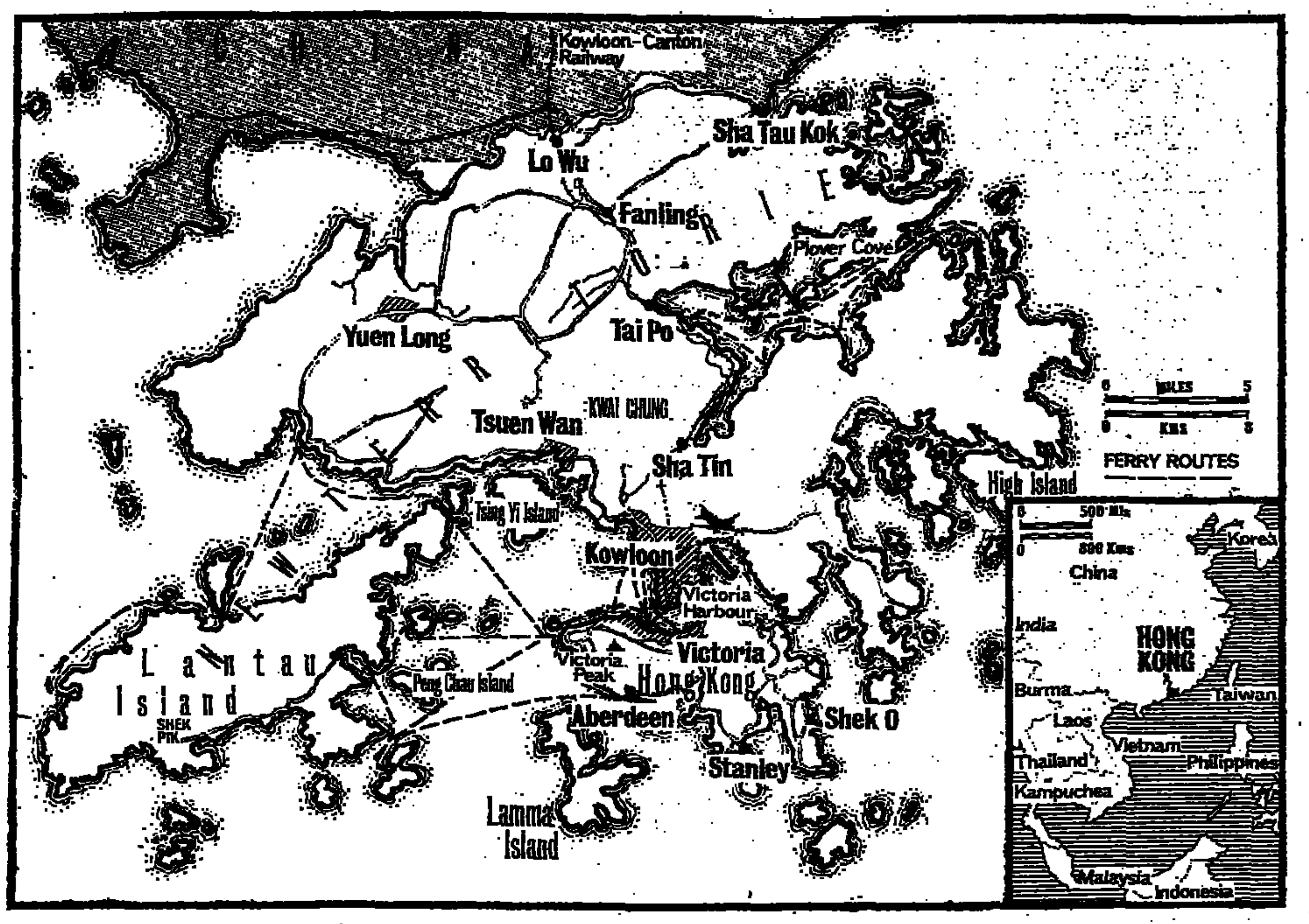
"Infrastructure" is a word much favoured in Hong Kong Government circles because it provides a shorthand expression for general social and industrial provisions as distinct from specific subsidies to sectors of industry or particular companies. Infrastructure can be anything from an emphasis on vocational training to a six-lane highway—and is good. Subsidies, according to Hong Kong Government thinking, distort the market place, may lead to inefficiency and ultimately the cardinal sin of protectionism—and are bad.

Sir Philip Haddon-Cave, formerly Financial Secreary and now Chief Secretary, called it "positive non-interventionism"—and not, as he and his successor Mr Bremridge would be quick to point out, *laissez-faire*. The Government raises taxes, builds roads and houses, educates and provides limited social security. What it strives not to do is intervene in the economic activities of the private sector, on the grounds that Hong Kong's open economy is subject to the operation of international market forces which it can neither predict nor control and which should not be frustrated.

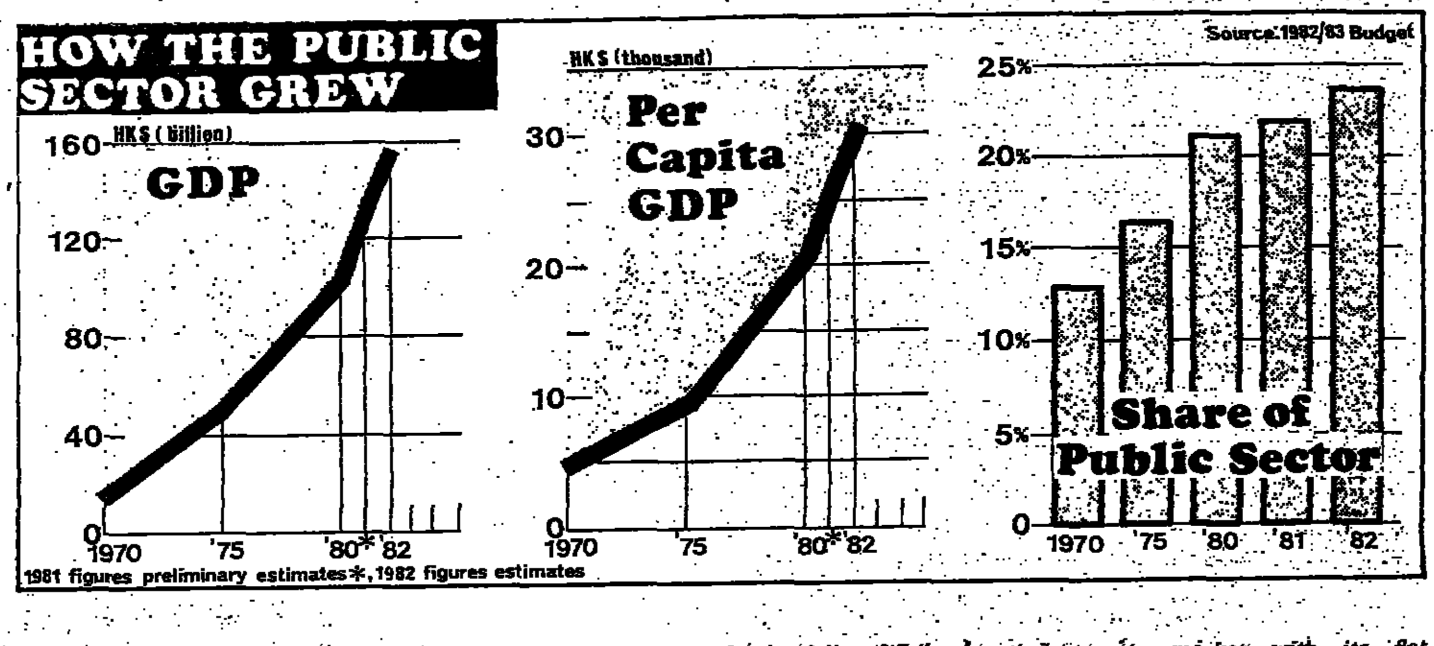
Positive non-interventionism has historically proved a good fit with Hong Kong's light manufacturing industry, sensitive as it is to shifts in world product demand and able to deliver wigs one year and watches the next from the same factory. Hong Kong became famed as a place which paid back investment in five years or less. Whether positive non-interventionism will prove quite so suited to the development of high technology industries which might take five years to develop a product, let alone show a profit, remains to be seen.

Such is the Hong Kong which *Sir Murray MacLehose left* behind him when he returned to Britain and a peerage in April. His successor is Sir Edward Youde who, while Sir Murray was building apartment blocks in the New Territories, was building diplomatic bridges as Britain's Ambassador to Peking. After that posting he served four years as Foreign Office No. 2—"chief clerk"—before coming to Hong Kong last month.

It is a dangerous temptation to mark watersheds without the benefit of hindsight. But so powerfully can the Governor stamp his personality on Hong Kong that it is difficult not to think in terms of "the MacLehose years" as some coherent economic and social era now giving way to another. What of the new man in Government House?




Sir Edward Youde, who took over as Governor of Hong Kong in succession to Sir Murray—now Lord—MacLehose. He is a 57-year-old diplomat who studied at the School of Oriental Languages before joining the Foreign Office in 1947 and speaks Mandarin Chinese fluently. It was in 1949 that he undertook his renowned mission behind communist lines to attempt to negotiate the release of HMS Amethyst, trapped in *the Yangtse River. He returned to Peking in 1974 as* British Ambassador.




So far, rather more has been seen of Sir Edward himself than of his policy intentions. His predecessor left as his principal piece of advice that Governors should not spend too much time in Government House but should get about and meet the people. Sir Edward has followed this precept, riding the MTR to talk with passengers and visiting, with words of comfort, flood-battered areas of Kowloon. Politically he is keeping his powder dry. A policy speech in the autumn is the likely time to expect some outline of his agenda for the future.

The new Governor has, however, already spoken out on the issue which now overhangs and in retrospect is likely to prove to have dominated his period *of office—the question* of Hong Kong's future status vis-a-vis China.

Sir Edward had every confidence, he has said, in the "step-by-step" system of exchanges whereby Peking and

## Budget forecast for GDP growth is 8% against 10% in 1981

London have commented on the future of Hong Kong when the New Territories lease runs out in 1997. What will happen then is for Hong Kong to guess and Peking to say.

Whereas neighbouring Macao survives in a diplomatic no-man's-land, the lease on Hong Kong's New Territories, obtained by the British from China's 19th century rulers, expires 15 years from this month. While Hong Kong Island and the tip of Kowloon were ceded in perpetuity to Britain under earlier treaties, China acknowledges *the force of none of* them. With the expiry of the new territories lease, the basis for a British administration in much of Hong Kong will lapse.

The issue cannot, therefore, simply be overlooked Macao-style but some form of resolution must be reached for the whole of Hong Kong. With his diplomatic background in China, Sir Edward is admirably placed to act as a pivot in discussions between London and *Peking* and admirably placed in Hong Kong.

Local businessmen reckon anything from as little as two to even as many as eight years before an unresolved lease question would undermine confidence and therefore prosperity in Hong Kong. A settlement, or lack of one, during Sir Edward's governorship could therefore prove equally crucial.

One of the more striking sidelights on the lease question came from an opinion poll published in the spring by the liberal-leaning Reform Club of Hong Kong. Some 32 per cent of respondents were unaware that the lease issue existed at all. Their achievement is a remarkable one in a society which has publicly and relentlessly explored the question over the last two or three years. But for those people who are concerned about the lease, other domestic issues may be thrown into incidental relief.

Will local opinion play an active role in the reaching of a settlement? Democracy exists only at a very local level in Hong Kong and as such excites relatively little excitement among prospective voters. But while the Falklands and Hong Kong are set in radically different political contexts, Hong Kong people have listened keenly to the British Government's views on the importance of self-determination for the Falkland Islanders. Does self-determination count for anything in Hong Kong?

Again, what of the British rulers themselves? While the mother-country affords the constitutional status within which private enterprise may flourish in Hong Kong, it has also provided some less palatable recent food for thought. UK overseas student fees, the Nationality Act and British participation in EEC textile quotas are instances where Hong Kong's interests and Britain's are not identical. Those British measures may not have been directed against Hong Kong—but neither did they spare it.

Where does a Governor stand when textile quotas supported by his parent Government threaten the prosperity of his dependent territory? Can he tell Hong Kong it has been too successful for Britain's good? Demonstrably no. Sir Murray MacLehose stood up for Hong Kong: Sir Edward Youde has said he will do the same.

While the lease question and its ramifications fall well into the category of what Sherlock Holmes would have called a "two-pipe" problem, the new Governor faces a more tangible tangle of issues in Hong Kong's immediate economic outlook. The sort of economic statistics which Hong Kong can still generate would give cause in many other countries to break *out the champagne. By Hong* Kong standards, however, they are not particularly bright.

Domestic exports this year are officially stated to grow by 7 per cent in real terms. By April Mr Bremridge *was suggesting* that that target would be difficult to reach—and the Government's first quarter economic report suggests that he is right. While growth in money terms was 9 per cent over the first quarter of 1981, real growth was nil.

The budget forecast for GDP growth this year is 8 per cent, against 10 per cent in 1981. While the expanding financial

## Its folk heroes are men who built up fortunes

sector will cushion overall GDP against a manufacturing slowdown, perhaps 5 to 6 per cent would be nearer the mark for this year.

The forecast budget surplus is HK$2.3bn, plus a further margin for the establishment of a capital works reserve fund, taking the effective total surplus up to HK$4.9bn. But land sales account for a third of Government revenue and industrial land prices have plummeted, in some cases by *half since the start of the year.* On the positive side the Government has introduced a package of car-related tax increases expected to yield HK$1bn this year, assuming a *maintenance of past spending* patterns. But even with that, achieving the HK$2.3bn surplus may not be easy.

Playing balance-sheet economics with Hong Kong is, however, like applying the laws of physics where the laws of chemistry would be more appropriate. The law of gravity was long ago forgotten by an economy which should have dropped like a stone after the war but instead rose like a phoenix. Think rather of a catalytic reaction between an enterprising Chinese workforce and expatriate skills and Government.

That catalyst would now seem, however, to have completed its job at least as far as non-governmental expatriates are concerned. Most Chinese businessmen and technocrats can run industry at least as efficiently as most of their European counterparts.

Indeed expatriate managers—with their remuneration packages, cars, boats and *luxury flats — have become* something of an awkward ingredient in Hong Kong's social equation. While they can afford to support the residential property market with its flat rentals of the equivalent of between £10,000 and £40,000 a year for unspectacular family accommodation, they help to price out Hong Kong's "sandwich society," the indigenous young professionals who while they earn European-level basic wages cannot afford to buy a home of their own. After the Government's latest package of tax rises they may not be able to afford to run a car either.

Hong Kong's per capita GDP according to Government figures, reached the equivalent of U.S.$5,200 in 1980, second only to that of Japan in the Far East—though, as Mr Bremridge has remarked, averages can be misleading, not least because of the wide gap between Hong Kong's high and low-paid inhabitants. "The long-term purpose of the encouragement of the creation of wealth," he said, "is not to enable the rich to get richer but rather to achieve an improving standard of living in all its aspects for the whole community."

A more rough-and-ready formulation of that sentiment might be that in an ideal Hong Kong not only would the rich *get richer but the poor would* get richer too. Despite the encroaching lease question, there is no *fin-de-siecle* lethargy in the air. Hong Kong's greatest — indeed its only — natural resource apart *from the harbour* is the profit motive. Hong Kong's folk heroes are men like Mr Li Ka-Shing, Mr Fung King Hey and Sir Y. K. Pao, emigres who have built up fortunes in property, finance and shipping respectively to put them among the ranks of the world's richest men.

From *the* bustling banks of Central District to the flatted factories of Kowloon Hong Kong is a city hard at work 10 to 12 hours a day, six and seven days a week. It is an exhilarating place—and a neurotic one. While economists such as Milton Friedman may eulogise it, sociologists may find less encouraging its capacity for narrowing down the goals of life to the eventual ownership of a Mercedes-Benz and a weekend in Macao when it all gets *too much. Hong Kong does* not, however, have much time for sociology. After all, there is not much money in it.

### OCCUPATION

**In the 1981 census, the total labour force was reported at 2.5m, or 66.8 per cent of a total population of 3.75m aged 15 and over, including 82.5 per cent of the males and 49.5 per cent of the females. The occupational structure of the working population was:**

| Occupation | Number | % |
|---|---|---|
| Professional, technical and related workers | 143,700 | 6.0 |
| Administrative and managerial workers | 64,106 | 2.7 |
| Clerical and related workers | 293,905 | 12.2 |
| Sales workers | 247,924 | 10.3 |
| Service workers | 374,093 | 15.6 |
| Agricultural workers and fisherfolk | 50,676 | 2.1 |
| Production and related workers, transport equipment operators and labourers | 1,212,545 | 50.4 |
| Armed forces and unclassifiable | 17,118 | 0.7 |
| Total | 2,404,087 | 100.0 |

### BASIC STATISTICS

| | |
|---|---|
| Area: | 1,000 sq km |
| Population: | 5.106m |
| GDP: 1981 | HK$135,346 |
| Per capita: 1981 | HK$26,260 |
| Inflation: 1981 | 14.7% |
| Trade: | |
| Imports | HK$138,303m |
| Exports | HK$122,181m |
| Currency: | HK$10.2975 = £1 |

### AREA

| | sq km |
|---|---|
| Kong Kong Island and adjacent islets | 78.37 |
| Kowloon and Stonecutters Island | 11.28 |
| New Kowloon and New Territories | 973.77 |
| | 1,063.43 |

Anthony Walker in Peking assesses the political problems and trade ties

# Keeping the golden goose happy

SEEN FROM Peking, the Hong Kong problem is relatively small in dimension compared with the host of other difficulties facing the Chinese Government only now consolidating its position after years of turmoil.

This may not be a welcome observation to Hong Kong residents and investors, many of whom are understandably concerned about the future. The Chinese Government moves slowly even at the best of times so it is likely to be several years yet before a decision is made in Peking about Hong Kong.

Mrs Thatcher's planned visit to China in September will help focus attention on the question and may even lead to the beginning of consultations between the British and Chinese Government on ways to protect satisfactorily Hong Kong's economic well-being.

It must be assumed that both sides are committed to that end. Indeed, the few public statements made thus far by Chinese leaders on the future of Hong Kong have stressed the importance of maintaining business confidence. But these statements have been so vague as to give no clue whatsoever to Peking's thinking about Hong Kong.

Until very recently Chinese leaders were content to leave well alone, sticking to the formula outlined when China joined the United Nations in 1972 that Hong Kong was Chinese territory, but the problem would be solved through negotiations when the time was ripe at some vague point well into the future.

To these same leaders, who had seen China turned upside down during a few short years at the onset of the cultural revolution 1997 must seem an awfully long way away. However, British officials in Peking and Hong Kong say that in the past year or so, the Chinese have indicated they are at last attempting to come to grips with the problem.

When Humphrey Atkins, Minister of State in the Foreign Office, visited Peking in January this year he was assured by Zhao Ziyang, the Chinese Premier that China wanted to preserve Hong Kong's prosperity and that the Chinese Government was beginning to think seriously about the problem.

This was considered a slight advance on Deng Xiaoping's advice to Hong Kong investors, first stated to Sir Murray MacLehose early in 1979 and repeated at least once since, that they should "put their hearts at ease."

Mr Deng, whose political fortunes have risen and fallen and risen again, would not need reminding that such advice could hardly be regarded as a cast-iron guarantee to anxious Hong Kong residents and businessmen.

With perhaps a degree of understatement, a British official here said recently: "What the Chinese Government has in mind no-one can be sure about." He could perhaps have added that not even the Chinese themselves are sure about what they have in mind.

It is almost certain that the Chinese leadership is some distance from even considering a set of options with regard to Hong Kong, but if they were these are the sort of alternatives they might consider.

● Allowing the status quo to continue indefinitely as they are apparently prepared to do with Macao.

● Some sharing of responsibilities between China and Britain, or at least the presence in Hong Kong of a senior Chinese official with powers to influence the conduct of policy.

● The designation of Hong Kong as a special administrative region under Article 30 of the new Draft Chinese Constitution—a sort of super special economic zone.

## NEW TERRITORIES IN 1997

All these solutions are subject to a number of permutations and all would create problems for both sides. What is certain is that there is no chance of China renewing a lease that it does not even recognise.

There is little doubt that in the official Chinese mind, the problems of Taiwan and Hong Kong are in some way psychologically linked. The Chinese used to say that the Taiwan problem would be solved first. It is most unlikely they would say the same thing today.

Recent visitors to China have quietly had their attention drawn to Peking's nine-point proposal issued last September for the reunification of Taiwan and the mainland. It has been discreetly suggested that this might give some clue to the solution that might emerge to the Hong Kong problem.

Point three of the reunification proposal may, in the minds of the Chinese leadership, be relevant with modifications to Hong Kong. It states: "After the country is reunified, Taiwan can enjoy a high degree of autonomy as a special administrative region. . . . The central government will not interfere with local affairs on Taiwan."

Article 30 of the recently released draft constitution mirrors this provision. It says: "The state may, where necessary, establish special administrative regions. The rules and regulations in force in special administrative regions shall be stipulated by law according to specific conditions."

While diplomats here say Article 30 was drafted specifically with Taiwan in mind, they concede it could be applied to Hong Kong. Such a "solution," if it were to be announced now, would, in the words of one British official, have a serious effect on business confidence in Hong Kong.

The point about the Taiwan reunification proposals and Article 30 of the constitution is that they are likely to serve as reference points in Peking for consideration of the Hong Kong problem.

However, at the end of the day when the Chinese leadership sits down to debate seriously the issue of Hong Kong its main concern will be how to keep the golden goose laying its golden eggs. In other words how to maintain Hong Kong as a secure market for billions of dollars worth of Chinese products, how to protect the efficiency of this booming re-export centre and how to guarantee that Hong Kong continues to be a robust source of investment and technical skills.

The problem for Mr Deng and his supporters is how to keep the golden goose on the nest while at the same time protecting themselves from the accusation that any arrangement they might make involves an abrogating of Chinese sovereignty.

Any deal that recalls treaty arrangements of the past would not be acceptable to members of the Chinese leadership. Those in Hong Kong hoping for the status quo to be maintained may be disappointed.

## JOINT VENTURES IN CHINA

(Breakdown made according to investors)

| Country | Number of joint ventures | Total investment (US$m) | Imported capital (US$m) |
|---|---|---|---|
| Hong Kong | 10 | 22.42 | 9.28 |
| U.S. | 5 | 16.165 | 8.035 |
| Japan | 2 | 3.88 | 2.028 |
| West Germany | 1 | 0.69 | 0.345 |
| Australia | 1 | 0.46 | 0.23 |
| The Philippines | 1 | 0.125 | 0.063 |
| Total | 20 | 43.74 | 0.063 |

ACCORDING TO TRADES

| Trade | Number of joint ventures | Total investment (US$m) | Imported capital (US$m) |
|---|---|---|---|
| Light industry | 4 | 7.35 | 3.465 |
| Foodstuff | 3 | 10.585 | 5.293 |
| Electronics | 3 | 11.9 | 4.93 |
| Machine building | 3 | 4.742 | 2.353 |
| Textile industry | 2 | 6.125 | 2.462 |
| Tourism | 2 | 0.264 | 0.128 |

Source: China Economic News.

Governing Committee could be taken in turn

# Independent zone

**In a speech at a recent conference in Frankfurt Mr Richard Charles Lee, chairman of Hong Kong's Lee Hysan Estate Company, who has served on two senior government bodies, the Executive Council and the Legislative Council, gave his personal assessment in this extract of what might happen before 1997**

If Hong Kong's future is as I perceive it, the event will signal a new approach to international relationships based on the mutual respect of the British and Chinese Governments with the interest of all parties, including that of the local population, in mind.

China has already stated her case in general and if Britain agrees in principle details will have to be worked out. This will take several years. Many people want to know the form of government as well as the legal and monetary systems Hong Kong is likely to have after 1997.

I have no crystal ball but I am willing to suggest some of the possibilities so as to stimulate discussion. I venture to suggest that there will be government by a Governing Committee and Hong Kong an "independent special zone" within China and under the Chinese flag.

The leadership of the Governing Committee would be taken in turn by a Chinese and a Briton, say, every three or four years. The modification should be introduced gradually before 1997 to prevent any shocks caused by abrupt changes. An early introduction of the modification would also give time to test the system and make any adjustments that might be necessary.

The Legislative Council would continue with some appointed members as an interim measure for a few years, after which the entire council could perhaps be elected. Hong Kong has already started the election of district committees from the beginning of this year.

It seems likely that the elections of Legislative Council members could be developed from this system, with the Civil Service remaining much the same as at present.

Let us assume that the present laws of Hong Kong, which have world-wide recognition, will continue to be enforced after 1997 with the consent of China. Where, then, is the final appeal for court cases to be taken? Since China claims sovereignty over the whole territory the final appeal should not go before the judicial committee of the Privy Council.

Neither do I think it should go to Peking, because the courts there work under a totally different legal system and many cases, for example, commercial disputes, would be outside their experience.

As I see it, the solution lies in the creation of a Hong Kong Final Court of Appeal.

It would be a Hong Kong court as distinct from a British court, although special arrangements might be made for British judges who are members of the Privy Council to continue to assist Hong Kong with their services in a new capacity acceptable to China, Britain and Hong Kong.

Before 1972, the exchange fund and general reserves were tied to sterling under Colonial regulations and, as a result, Hong Kong lost heavily through the weakness of the pound and successive devaluations. In 1972, the Hong Kong dollar broke away from sterling and diversified. The diversification of the fund is being managed successfully and Hong Kong has now become the world's third largest financial centre. This advantage should be vigorously maintained.

It is one of the points the Chinese leaders may well have had in mind when they spoke of preserving Hong Kong's present status.

When the year 1997 arrives the Exchange Fund should not be transferred to London or to Peking but should be kept locally or at any other place which Hong Kong itself may decide.

This would perpetuate the independence of the Hong Kong dollar and continue to strengthen international confidence in Hong Kong as a business centre.

PROFILE: DAVID LI

# Prepared for changes

CAMBRIDGE - EDUCATED David Li, the 43-year-old chief executive of the Bank of East Asia is typical of the younger breed of Hong Kong Chinese businessmen who are keeping an anxious eye on Peking for clues as to how China will handle the Hong Kong problem.

He says that some clarification of Hong Kong's position will be required soon if confidence is to be maintained. "I think the Chinese are very clever," he says, "they don't want to rock the boat. I think there will be a period of consultation and negotiation."

Mr Li, whose bank is one of the largest and most respected in Hong Kong, is prepared for changes in the way in which Hong Kong is administered although naturally he hopes the present free enterprise system remains intact.

"I think we all would like to have a bigger say and participate in the welfare and prosperity of Hong Kong," he says. "We all feel the present system may have to change towards a more representative and more open system in a controllable sense. But once you have real politics coming into play then I don't htink it would be acceptable to China either, so it's a delicate balance to work out.

"Whether the British stay or not is another matter, but I wish the present system to continue because it will maintain stability and give people confidence to invest in Hong Kong, and whatever investment there is in Hong Kong is also good for China.

Mr Li, whose bank is the only foreign bank to have maintained a branch in China which can take deposits (as an agent for the People's Bank of China) through all the years of communist rule — it is located in Shanghai — believes that overseas Chinese businessmen have an advantage in dealing with mainland officials.

He instances his own recent experience where on mentioning the name of his family village in Guangdong province to a senior Chinese official he was treated to a description of economic progress being made there. Mr Li, who was born in England, has never visited the village.

Asked whether he had run into resentment in his dealings with Chinese officials, Mr Li said that never in his experience had he encountered difficulties. "They accept the material differences," he said.

Mr Li's links with China—his bank is involved in financing a range of ventures in the People's Republic of China—do not prevent his doing business with Taiwan. He travels there from time to time, something, he says, that does not appear to cause any complications in his dealings with Peking.

Mr Li finds doing business with China time consuming, but believes that progress is being made. He points out that the Bank of East Asia helped finance the first joint venture in China (a catering business located at Peking airport) and also helped launch Visa card in China with the Bank of America.

The bank also represents American and British banks in dealings with the Chinese, particularly in the area of trade financing. Mr Li would like to push his bank into new areas of the China business, but all this takes time.

"I think the Chinese are very careful about entering into joint venture agreements so they go into very minute detail as to the responsibilities of the parties," he says.

Mr Li describes the question of the lease as the "topic of the day" and says "it's on everyone's mind," but he cannot offer any special insights as to how the problem will be resolved. It will have to be cleared up one way or another in three or four years, he says, or people may stop investing.

# Sharp increase in growth rate

**CHINESE RE-EXPORTS**

ANTHONY WALKER

ANY DAY of the week the modern port facilities in Hong Kong which has the world's third busiest container terminal, are used to tranship millions of dollars worth of Chinese products.

Hong Kong is a huge re-export centre for Chinese goods, and this part of its business is continuing to grow at a rapid rate. In the years 1970-1977 China re-exports grew by value at about 22 per cent per year.

In the four years to 1981 the growth accelerated by more than 50 per cent per annum. By 1980, China ranked first as Hong Kong's largest market for re-exports, up from 20th position in 1970.

Among the big volume China re-exports are clothing, cotton fabrics and foodstuffs. Re-exports of goods to China have shown an even more spectacular increase in percentage terms. In 1979 re-exports to China were up by 514.5 per cent on the year before, dropping down to a 73.3 per cent growth last year.

Hong Kong's value as a re-export centre for the China trade *will continue well into* the next century simply because China's own transport facilities—road, rail and port—are likely to remain inadequate for a very long time.

Hong Kong's efficiency and China's sluggishness in port operations are illustrated by figures given recently to a Hong Kong business symposium by Dr Victor Sit of the Department of Geography at Hong Kong University. The figures showed that in 1980 the average turnaround time for foreign vessels at Chinese ports was 7.7 days. In Hong Kong the turnaround time for container ships is 2.6 days and only 15.5 hours for containerised vessels.

Many traders, understandably, prefer to tranship goods to and from China through Hong Kong because, while extra handling of cargo is involved, a great deal of time is saved.

While Hong Kong boasts some of the most sophisticated container-handling terminals in the world, China's container facilities are limited. In 1980, Chinese ports handled only 380,000 tons of containerised cargo.

A brake on the further development of Hong Kong's growth as a re-export centre for China are the poor rail and road communications with nearby Guangdong province. The rail system between Hong Kong and Canton has only limited capacity to carry containers. This problem will not be overcome until a double track railway line is built.

Apart from facilitating the efficient transhipment of goods to, and from the Chinese mainland, Hong Kong's other prime value to China as a re-export centre is that it acts as something of a political filter for trade with Taiwan, Indonesia, South Korea and even Israel and South Africa. Over several years there has been rapid growth in this "indirect" trade particularly with Taiwan and South Korea.

In the three years to 1981 there was spectacular growth *in trade between China and* Taiwan through Hong Kong from about US$70m worth in 1979 to about US$460m worth last year. In 1981, two-way trade between China and South Korea through Hong Kong reached about US$215m, a sharp increase on the year before.

In the first three months of this year, trade between China and Taiwan and South Korea slipped compared with the same period last year. This is believed to have been brought about by political directives from Peking that are making it more difficult for Hong Kong middlemen to secure Chinese import licences for goods originating in Taiwan and South Korea.

Nevertheless, trade between China and Taiwan and South Korea remains significant. A Western commodities dealer, based in Hong Kong, confirmed that shipments of Chinese coal are continuing to find their way to South Korea. China is said to have shipped about 1.5m tons of coal to South Korea last year.

Re-exports into China from Taiwan, Indonesia, South Korea and Singapore, with whom China does not have diplomatic relations, accounted for more than 40 per cent of goods transhipped through Hong Kong into China last year.

**HONG KONG AS AN ENTREPOT FOR CHINA**

| | Re-exports to China (HK$m) | % of total re-exports | Re-exports of China origin (HK$m) | Re-exports of China origin as % of total re-exports |
|---|---|---|---|---|
| 1979 | 1,315 | 6.6 | 5,663 | 28.3 |
| 1980 | 4,642 | 15.4 | 8,394 | 27.9 |
| 1981 | 8,044 | 19.3 | 12,834 | 30.7 |

**BALANCE OF TRADE BETWEEN HONG KONG AND CHINA**

| | 1979 HK$m | 1979 % growth | 1980 HK$m | 1980 % growth | 1981 HK$m | 1981 % growth |
|---|---|---|---|---|---|---|
| Total imports from China | 15,201 | 43.4 | 21,948 | 44.4 | 29,510 | 34.5 |
| Retained imports from China | 9,538 | 37.5 | 13,554 | 42.1 | 16,676 | 23.0 |
| Re-exports of China origin | 5,663 | 54.8 | 8,394 | 48.2 | 12,834 | 52.9 |
| Total exports to China | 1,918 | 550.2 | 6,247 | 225.7 | 10,968 | 75.6 |
| Domestic exports to China | 603 | 644.4 | 1,605 | 166.2 | 2,924 | 82.2 |
| Re-exports to China | 1,315 | 514.5 | 4,642 | 253.0 | 8,044 | 73.3 |
| Visible trade deficit | 13,283 | | 15,701 | | 18,541 | |

**PRINCIPAL COMMODITIES**

Re-exports of China origin

| Commodities | 1979 HK$m | 1979 % growth | 1980 HK$m | 1980 % growth | 1981 HK$m | 1981 % growth |
|---|---|---|---|---|---|---|
| Clothing | 724 | 120.7 | 1,294 | 78.7 | 1,838 | 42.0 |
| Miscellaneous textile made-up articles | 726 | 54.1 | 847 | 16.7 | 992 | 17.1 |
| Vegetables and fruit | 342 | 39.6 | 349 | 2.0 | 789 | 126.1 |
| Cotton fabrics, woven | 331 | 36.2 | 365 | 10.3 | 651 | 78.4 |
| Other miscellaneous manufactured articles | 267 | 49.2 | 431 | 61.4 | 626 | 45.2 |
| Miscellaneous crude vegetable materials | 413 | 25.9 | 514 | 24.5 | 564 | 9.7 |
| All commodities | 5,663 | 54.8 | 8,394 | 48.2 | 12,834 | 52.9 |

**RE-EXPORTS TO CHINA**

| Commodities | 1979 HK$m | 1979 % growth | 1980 HK$m | 1980 % growth | 1981 HK$m | 1981 % growth |
|---|---|---|---|---|---|---|
| Textiles | 232 | 1,010.0 | 1,368 | 516.2 | 3,170 | 131.7 |
| Telecommunications and sound recording and reproducing apparatus and equipment | 116 | 2,800.0 | 444 | 282.8 | 1,035 | 133.1 |
| Road vehicles | 193 | 3,333.3 | 282 | 172.8 | 379 | 34.4 |
| Electrical machinery | 27 | 2,600.0 | 259 | 859.3 | 359 | 38.6 |
| Watches and clocks | 21 | 950.0 | 144 | 585.7 | 221 | 53.5 |
| All commodities | 1,315 | 514.5 | 4,642 | 253.0 | 8,044 | 73.3 |

Dozens of Chinese organisations are represented, many under the aegis of China Resources

# Peking's business involvement expands

THE MAN in the well-cut blue business suit and silk tie is the epitome of the quietly successful businessman. His manner is prudent. Large sums of money are mentioned in a soft voice without emphasis. A small frown appears if questioning about financial matters becomes too direct.

Mr H. Chen is indeed a successful businessman, but not on his own account. As senior deputy general manager of the Bank of China's Hong Kong branch he is responsible for a huge range of trade-related transactions involving tens of millions of dollars.

The Bank of China at 2A Des Voeux Road with its granite-carved lions at the doorway is the most prominent Chinese enterprise in Hong Kong. Together with its 12 sister banks, the Bank of China controls a big slice of the Hong Kong financial market — estimated by some western bankers in Hong Kong to amount to as much as 40 per cent.

The Bank of China however is only one example, albeit the most important, of the mushrooming Chinese business presence in Hong Kong. The People's Republic, through its banks, insurances companies, finance houses, trade offices, emporiums, property development companies, shipping activities, to name just some of the enterprises it controls, is deeply involved in Hong Kong's financial life.

Chinese investments in Hong Kong and the New Territories are estimated to exceed U.S.$2bn and could well be worth U.S.$3bn. At least U.S.$1bn has been invested in the past several years.

China is now a significant property owner and will have done nicely out of a series of shrewd purchases it has made since 1977 when the Hong Kong property market began to take off. China's business presence in Hong Kong has grown very rapidly indeed since the mid-1970s.

Today, several dozen Chinese organisations have representative offices in Hong Kong, many of them under the aegis of China Resources which has a staff of several thousand and was established in Hong Kong before 1949.

Under China Resources there are a range of trading corporations such as the China National Machinery Import and Export Corporation, Metals and Minerals Import and Export Corporation and the Technical Import Corporation to name a few.

China Resources controls three oil storage depots in Hong Kong and recently established an enterprise development department to seek out projects for investment.

## Food imports

Apart from China Resources and the organisations which come under its direct control, there are China-controlled companies like Hua Yuan which acts as agent for the China Light Industrial Products Import and Export Corporation and Ng Fung Hong which is the agent for the China National Cereals, Oils and Foodstuffs Import and Export Corporation. Some 50 per cent of all food consumed in Hong Kong comes from China.

Then there are the distributors of Chinese products in Hong Kong. The China Products Company, for example, runs a number of department stores. Other organisations active in the merchandising of Chinese goods are the China Merchandise Emporium Limited and the Yue Hwa Company. There are about 20 Chinese emporiums in Hong Kong.

Added to the activities of the central government purchasing and distribution agencies such as China Resources, are new organisations being established by the provinces. Guangdong and Fujian have recently established offices to push provincial products.

China's main property investments in Hong Kong are made through the Kiu Kwong Investment Corporation, a Peking-controlled investment company. Since 1977 Kiu Kwong has been extremely active in the property market not always with completely satisfactory results.

Kiu Kwong engaged in what one businessman in Hong Kong described as "misguided speculation" over the purchase of two sites in Kowloon Bay in 1980 for US$60m. The properties were sold late last year at a loss after the Hong Kong property market dived.

One of Kiu Kwong's most important projects is its joint venture with Hong Kong Land and Jardine Matheson to develop property over the mass transit rail depot at Tsuen Wan *in Kowloon. The development* backed by the Bank of China and the Nanyang Commercial Bank involves the expenditure of about US$200m. Kiu Kwong will hold 80 per cent of the equity, Hong Kong Land and Jardines will have 15 per cent and 5 per cent respectively.

Another prominent Chinese organisation in Hong Kong is CMSN, the China Merchant Steam Navigation Company, *which is 60 per cent owned by* the Chinese Ministry of Communications. CMSN, until a few years ago, had a virtual monopoly on China's coastal trade, but is now having to compete.

## Shekou estate

An important CMSN project is the Shekou industrial estate within the Shenzen special economic zone that separates Hong Kong and the New Territories from Guangdong province, CMSN has built a 600-metre wharf at Shekou and work is proceeding on establishing industries on the estate.

According to a Hong Kong Government official who recently visited Shekou achievements there are relatively promising compared with the rest *of Shenzen. Already completed* are an oxygen bottling plant and a marine paint factory. Other ventures soon to go into operation are a container manufacturing company and a steel rolling mill.

CMSN controls wharves and godowns in Hongkong, one of the world's busiest harbours, and also acts as agent for the China Ocean Shipping Company, COSCO.

*Another Peking-controlled* company in shipping and transport is Far East Enterprising Company, Hong Kong Ltd, Farenco, which acts as agents for the China National Foreign Trade Transportation Corporation and the China National Chartering Corporation. China is now moving into the ship chartering business.

Hong Kong government offi*cials have no exact figure for* the number of people employed in Hong Kong by Chinese organisations, but one official said that those directly or indirectly on Peking's payroll would run into tens of thousands. It is estimated that about 50 organisations, including banks, are controlled by China.

As one Hong Kong official said: "The increase in Peking's business involvement in Hong Kong over the past several years has been quite dramatic."

**FOREIGN INVESTMENT**

| Name of the province, municipality and autonomous region | Compensation trade: Number of contracts | Compensation trade: Imported equipment value in U.S.$m | Processing and assembling with supplied materials: Number of contracts | Processing and assembling with supplied materials: Imported equipment value in U.S.$m |
|---|---|---|---|---|
| Beijing | 15 | 28.11 | 118 | 1.46 |
| Tianjin | 0 | 6 | 100 | 0.21 |
| Shanghai | 9 | 3.52 | 899 | 0 |
| Guangdong | 47 | 13.2 | 5,872 | 28.21 |
| Fujian | 37 | 5.78 | 1,252 | 0.45 |
| Guangxi | 5 | 1.81 | 167 | 1.29 |
| Zhejiang | 8 | 2.54 | 196 | 0.08 |
| Jiangsu | 11 | 3.35 | 42 | 0.78 |
| Shandong | 5 | 2.15 | 36 | 0 |
| Hebei | 2 | 0.61 | 3 | 0 |
| Liaoning | 7 | 0.5 | 29 | 0.3 |

# Overseas investors face frustration

**SPECIAL ECONOMIC ZONES**

FOR INVESTORS in China's newly established special economic zones it has been a difficult few years as Western capitalist practices have run head on into *a sluggish Socialist system with* sometimes unhappy consequences for the foreign party. Poor levels of productivity, meddling party officials, corruption and the simple fact that it has been almost impossible to sack unsatisfactory workers have combined to make life awkward for the overseas investor.

At a recent business *symposium in Hong Kong one* such investor, Mr Alan Lau, who had set up a shoemaking venture in Shenzen (one of the zones) in 1978, outlined some of the difficulties confronting the foreign entrepreneur. He complained of what he described as the "iron rice bowl" problem, reference to the fact that in most Chinese enterprises workers are guaranteed a lifetime job whether they work hard or not. It is almost unheard of for a worker to be sacked from a Chinese enterprise.

"Always it was the iron rice bowl problem which discouraged the management from dismissing the incompetent," he said. Mr Lau proposed that an investor be given "100 per cent freedom" to manage his enterprise, including the right to dismiss unsatisfactory staff on seven days notice.

Mr Lau's difficulties are typical of those experienced by dozens of investors in Shenzen. For many the process of educating Chinese officials and workers in the ways of the competitive West has been expensive and at times hugely frustrating.

But according to recent reports, progress is being made, particularly on the question of labour relations. New regulations approved by the National People's Congress last year allow the foreign investor more flexibility in the hiring and firing of staff—and perhaps what is more important, in the payment of incentives for greater productivity.

One foreign enterprise which got off to a bad start but is now running relatively smoothly thanks to a rearrangement of management responsibilities is a joint venture quarry financed by Readymix Concrete of Australia, a CSR subsidiary.

Readymix had severe problems in the initial stages in imposing management discipline on the enterprise. Chinese managers would simply ignore or misinterpret directives from the head office in Hong Kong which was attempting to co-ordinate supplies of aggregate across the border into the New Territories.

Through consultations and re-negotiation of the original agreement most problems have been ironed out. A perhaps worrying development as far as other investors in the zone *are concerned is that as part* of the re-negotiations Chinese workers on the project are getting paid much the same wages as those doing a similar job in Hong Kong.

Foreign business consultants familiar with wage structures in the special economic zone warn that there is a danger of the Chinese pricing themselves out of the market by allowing *wage levels to rise too high.* The investor is likely to be reluctant to risk capital in a zone investment—given all the teething problems he can expect—if wage levels are uncompetitive.

A visit to the Shenzen Zone is to find yourself in the middle of a big construction site. Large-scale infrastructure projects are under way to transform this once sleepy rural area into a huge industrial estate.

Much of the infrastructure cost is being borne by the Chinese Government but in the Futian area of Shenzen a Hong Kong company, Hopewell China Development (Shenzen) is involved in a joint venture to develop 33 sq km of land.

Hopewell is spending some $350m on housing and factory estates for eventual sale to investors in the zone. Profits will be shared as to 49 per cent to Hopewell and 51 per cent to the Chinese Government.

The Chinese would no doubt like to develop the rest of the 327.6 km zone on this basis but at this stage it appears that foreign investors are holding back from getting involved in large capital works programmes, at least until they are certain it will be a success.

At the end of March last about $1.4bn had been pledged in foreign investment for the Shenzen zone but something less than $250m had actually been invested.

About 1,000 contracts have been signed by foreign investors in Shenzen, most of them for small-scale agreements for processing and assembling products with materials supplied from outside China.

Foreign banks will soon be allowed to open branches in Shenzen to conduct trade financing and look after foreign currency business.

The population of the Shenzen zone is expected to rise to about 1m by the year 2000. At present it is something less than 100,000, both urban and rural, according to official figures.

With that sort of projected population growth and the scale of planned investment, the Chinese are creating a boom town—with all the associated problems one would expect to flow from such an ambitious project. For Peking it is a bold experiment. Progress in the Shenzen zone will act as something of a barometer of the success or failure of China's open-door policy.



PROFILE: LORD KADOORIE

# Taking the mistakes of Humpty Dumpty to heart

On the chair behind the desk in the office of Lord Kadoorie of Hong Kong sits a small Humpty Dumpty doll. "It's to remind you of what *happens if you lose your* balance," said Lord Kadoorie when asked about this incongruous addition to the furnishings of his penthouse suite with its magnificent view of the harbour and its glass cabinet lined with priceless jade antiques.

Lord Kadoorie appears in no danger of losing his equilibrium. Now in his eighties, he is almost certainly the wisest owl in the Hong Kong business community. For that reason alone his views on the future of the British colony and more particularly its relations with China are worth recording.

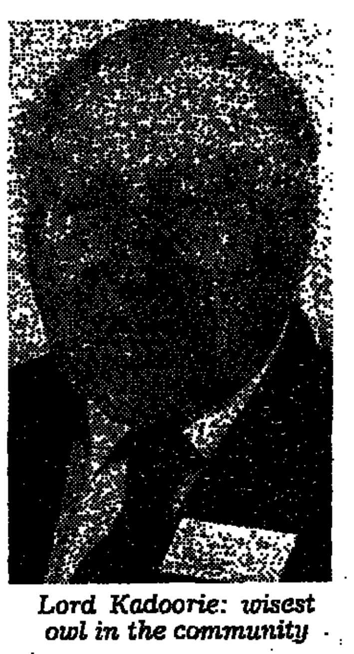
Lord Kadoorie is optimistic about the future, describing Hong Kong as a "very valuable asset" to the Chinese. It is, he says, a neutral point of *contact*, a "fluid flywheel"—he is much given to engineering similes — that facilitates China's dealings with the outside world.

Lord Kadoorie, whose main business is China Light and Power, the Hong Kong utility, speaks from the vantage point of his long experience in the region which includes the loss of at least one fortune when the Communists took over Shanghai.

This, you would think, would make him cautious about future relations with China. Instead, he is positively bullish about the development of economic ties between Hong Kong and China to the mutual advantage of each side.

"The Hong Kong of today is . . . a neutral *point* of contact between East and West," he told the Lords in May. "It is also a service station which enables China to regulate the flow of expertise required to fuel its modernisation programmes."

Lord Kadoorie, who is perhaps rather old-fashioned in matters of business and who believes, no doubt, that a man's word should be his



*Lord Kadoorie: wisest owl in the community*

bond is rather scornful of the legal rigamarole that surrounds business dealings between China and the West these days.

"Enterprises with China must be based on mutual trust rather than enforceable contracts, which make for difficulties for conscientious lawyers and accountants," he told the Lords. "And this joint venturism unquestion*ably can best be carried out* through Hong Kong using local expertise and experiences.

Lord Kadoorie sees the special economic zones being established in Guangdong province, adjacent to Hong Kong, as performing a critical role in future relations between China and the British colony.

"Goodwill," he said in a recent interview, "will largely depend on how successful these industrial zones become. Therefore we have an interest in making them a success." Failure, he warned, would reflect badly on Hong Kong and may be interpreted by the Chinese as evidence that Hong Kong businessmen were being less than helpful.

"Honesty creates trust," he said, "trust creates confidence, unless there is that confidence you really cannot deal to mutual advantage with the Chinese. Once confidence is established *it is a very valu*able asset."

China Light and Power is presently discussing with the Chinese the possibility of building a nuclear power station near Canton to supply power to Guangdong province and to Hong Kong itself. By any standards, it would be a huge undertaking. Costs would run into several billion dollars.

Lord Kadoorie said that a feasibility study prepared under the supervision of China Light and Power engineers is now with the Chinese Government. He was not prepared to predict the outcome of Peking's deliberations except to say the project is "more likely to happen than not to happen."

He claims that there is no *feeling of nationalism* as such in Hong Kong: people know it as a neutral point of contact, he says. But perhaps there is no more avowed Hong Kong nationalist than Lord Kadoorie himself. His speeches to the Lords — he has given two since he was elevated to the peerage last year — robustly proclaim Hong Kong's successes.

Hong Kong, he told his fellow Lords in May, was the world's biggest exporter of garments, watches and toys. It had the third busiest container terminal in the world and was the third most important financial centre after New York and London . . . a generation after it took the first halting steps to find a new economic role it is still the people of Hong Kong who are the key to its success.

On the question of a somewhat uncertain future, at least until the question of the lease is resolved, Lord Kadoorie is sanguine: "You have to behave in a normal, ordinary way . . . be optimistic. If you're wrong, you're wrong. There is nothing you can do about it."

# "HONG KONG OFFERS GREATER MARKET POTENTIAL FOR U.K. EXPORTERS THAN EVER BEFORE"

**Lord Limerick**
**Chairman of the British Overseas Trade Board**

Hong Kong is a market worth £15,500,000,000. Its total imports in 1981 reached £12.6 billion and are projected to reach £15.5 billion this year.

Apart from U.K.'s domestic exports to Hong Kong, the U.K. order book for capital goods in Hong Kong has never been so full. Hong Kong's imports of capital goods in 1981 totalled £1.8 billion with U.K. taking a £260 million share of this. Contracts for capital equipment and engineering consultancy, both for private and public developments in Hong Kong, will offer many new opportunities for U.K. businessmen in 1982/83.

These developments will involve contracts worth an estimated £2 billion.

Apart from the capital goods sector, tremendous potential also exists in a number of fields within the raw materials and semi-manufactures sector amounting to 40% of Hong Kong's total imports.

Hong Kong's total imports of fabrics and yarn alone accounted for £1.8 billion in 1981.

## The Facts

Recent development projects contributing significantly to U.K.'s earnings from engineering consulting services in Hong Kong included:—

| | £ million |
|---|---|
| —Replacement airport | 525 |
| —Sewage treatment work | 176 |
| —New town and other developments | 640 |
| —Mass Transit Railway extension | 645 |
| —Power station | 310 |
| —Aqueduct | 118 |
| —Cement plant | 80 |
| —Roadworks and fixed crossing | 365 |
| | £2,859 million |

## The Future

Hong Kong's dynamic expansion as a trading centre has dictated the growth of its infrastructure; through its public works and housing departments the Government is at this moment committed to spend at least £10 billion on various developments in the next decade.

One of the largest private development corporations in Hong Kong has acquired land in the North-Western New Territories to build a privately constructed new town with a planned population of 500,000.

The future looks bright.

Britain is sharing in Hong Kong's prosperity. In 1982, based on the average annual growth rate for the last three years, it is estimated that Britain's total exports to Hong Kong will exceed those to Japan, making Hong Kong Britain's biggest market in Asia.

Hong Kong is on the doorstep of the largest, most exciting, developing market in the world, China, where the opportunities for the future are incalculable.

There are many opportunities for British business in Hong Kong in the years ahead, but the pace must be maintained.

The Hong Kong Trade Development Council can help you find the right contacts. Telephone the H.K.T.D.C. today.

The service is free. The business is worth £15.5 billion and growing.

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**David Freud** examines the territory's financial services. Although helped by its role as an off-shore base for Tokyo Hong Kong has established robust markets on its own terms

HONG KONG is an international financial centre of growing importance. Its main rival in the Far East has traditionally been portrayed as Singapore. But the territory's continuing success is probably far more dependent on events to the north, in Japan.

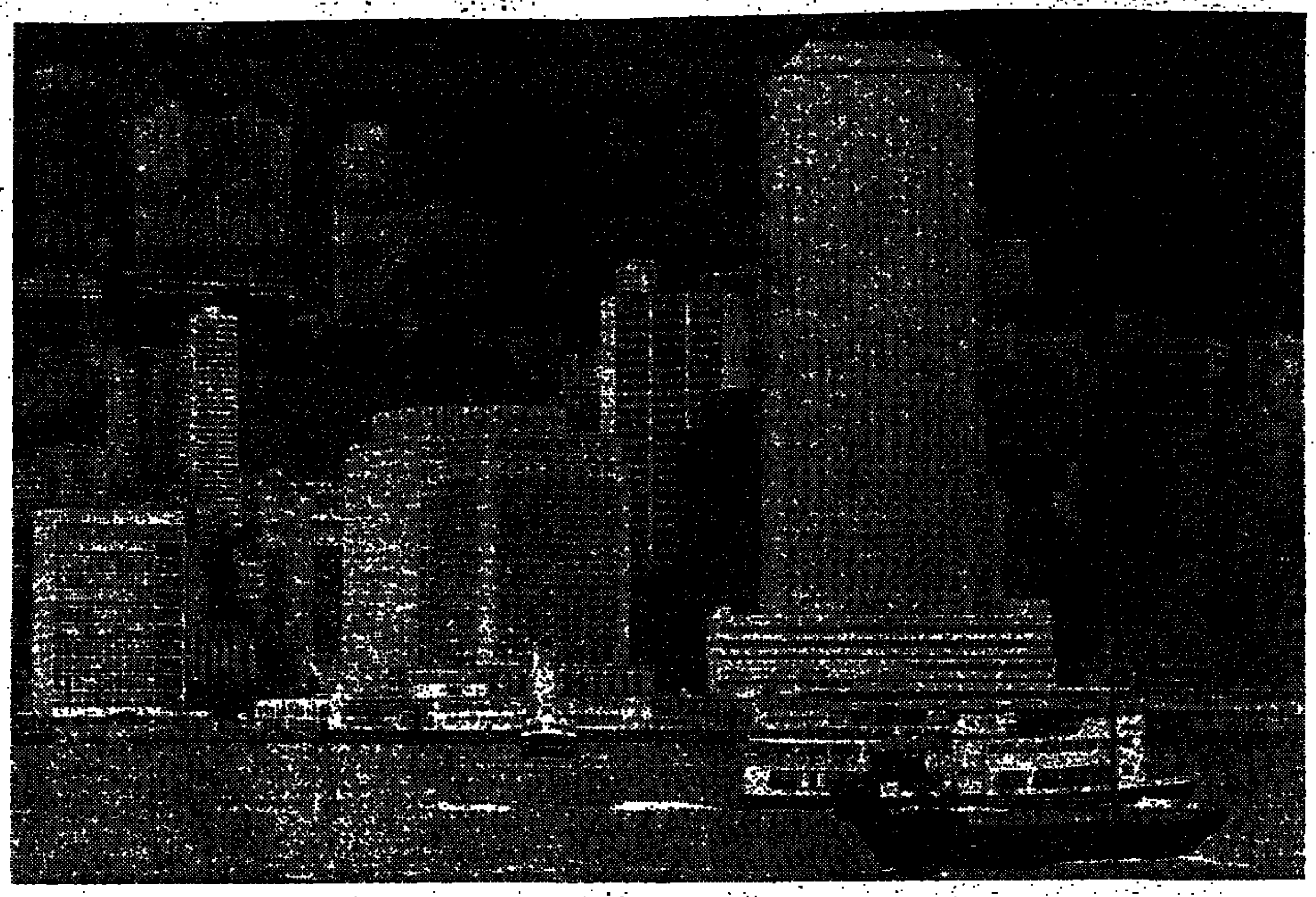
In several areas Hong Kong has seized a role as an off-shore base for Tokyo markets, and might be vulnerable if the Japanese authorities eased existing domestic restrictions.

Hong Kong is now the main syndicated loan centre in the Far East, for example, although the Japanese are considering establishing an offshore status for banks in Tokyo. International fund management in the Far East has been gravitating to Hong Kong, even though the bulk of investment is probably channelled into the Japanese market. The most dramatic example of the relationship is the Hong Kong Commodity Exchange, which has been revived from death's door by Japanese brokers and adapted to suit their requirements.

Elsewhere Hong Kong has established robust markets on its own terms. The 70-year-old Chinese Gold and Silver Exchange now provides support for the activities of a range of international gold market makers, while the stock market—presently split between four exchanges—boasts the highest liquidity ratio in the world.

As enduring as the myth about Hong Kong's rivalry with Singapore is the belief that the territory offers a capitalism untrammelled by rules and regulations. In fact regulation has been expanding quite rapidly in recent years, although there is some way to go before standards match those in Europe or the U.S. Nor is the existence of a banking cartel on interest rates—now coming under pressure—quite consistent with the image of red-blooded competitive capitalism.

In terms of international finance Hong Kong's main advantages have lain in the pro-business attitude of government, associated with a lack of political activity, and a simple and favourable tax environment. Once set in train the expansion of financial services acquires a momentum of its own. Nevertheless, mounting wages and rents—caused in part by the territory's popularity—have reduced some of the cost benefits that Hong Kong used to enjoy. Without some more formal arrangement with China as to what is to become of the territory at the end of the century, the quiescent political dimension could rebound with a vengeance.



*View of part of the banking sector as seen from the ferry*

# Restructuring plan will bring drastic changes

THE BANKING industry in Hong Kong is half-way through a two-year restructuring programme, and the signs are that it will emerge from the process looking very different. Moreover it is likely that the outcome will not quite be what the financial authorities had in mind when they launched the reform programme last year.

More by accident than design, the cartel agreement under which banks operate seems to have been undermined. Mr Tom Welsh, chairman of the Hong Kong Association of Banks as well as a general manager of the Hongkong and Shanghai Banking Corporation talks of "stresses and strains" in the interest rate agreement.

Mr Colin Stevens, general manager of Barclays Bank International in Hong Kong is more forthright. "The recent agreement that there should be no cartel on deposits of HK$500,000 and over really spells the death knell of the cartel," he says.

The original plan envisaged the creation of a three-tier banking system of banks, registered deposit-taking companies (DTCs) and licensed DTCs, each of which would have a defined sphere of operations. However, the original plan gave the best plum to the newly-created licensed DTCs which could pay market rates for deposits above HK$500,000.

The banks realised that this would effectively hobble them in the key wholesale money area, and so earlier this year it was announced that the banks would no longer be bound by the interest rate agreement above this threshold.

This means that wholesale operations have been opened up for free competition, and the question is the speed and extent to which this will spread into the retail market. Such a development would cause a major shake-up in domestic banking in a territory in which there are getting on for 1,300 bank branches of one kind or another.

The restructuring plan was initiated by the success of the DTCs in taking deposits. There was concern among the banks that they were taking the lion's share of the deposit growth that was going. In 1981, for instance, DTCs' deposits expanded by 42 per cent, while the growth in banks' demand, time and savings accounts was only 23 per cent.

Under the restructuring, the tier of registered DTCs will continue to observe the HK$50,000 minimum for deposits, but will only be allowed to offer maturities of more than three months.

This is a change that is likely to curb the activity of registered DTCs considerably, since in Hong Kong depositors like to keep their assets short and liquid. It may well be that the number of registered DTCs will fall from the 350 level established at the end of 1981.

DEPOSITS
(HK$m)

| | 1979 | 1980 | 1981 |
|---|---|---|---|
| Banks | 67,985 | 88,490 | 109,227 |
| Deposit-takers | 24,495 | 42,716 | 60,479 |

Source: Hong Kong Government.

The registered DTCs will have to pay more for their deposits, and they are likely to have to specialise in certain types of lending. Mr Kent de M. Price, senior vice-president of Citibank, believes that the registered DTCs will henceforth concentrate on mortgage finance and consumer lending.

While the banks will see less competition from this area, they will be in direct conflict with the new category of licensed DTCs for deposits above HK$500,000, where, since March 1, the interest rate agreement has been lifted.

Since February DTCs have been granted licensed status on a batch-by-batch basis, and there should be about 20 by the end of the summer. Early names were Jardine Fleming, Kleinwort Benson (HK), Nomura and Pierson Heldring and Pierson. On this basis it looks as if the licensed DTCs will be the Hong Kong equivalent in standing to the London merchant banks. But they may well prove able to develop a formidable presence in the wholesale money markets, in competition with the banks, some of whose operations may be rather less efficient.

**BANKING INDUSTRY**

At the same time the moratorium on the granting of new banking licences in force since 1979 was lifted last year. So banking competition has increased with the entry last year of eight major international banks, particularly from Japan. Earlier this year a new local bank was licensed in the shape of Sun Hung Kai, the first for many years. The number of licensed banks in Hong Kong now stands at 125, of which 122 are operating.

While potential pressures are growing on the deposit side for banks, there are also signs that the handsome spread between deposit and lending rates may be beginning to be eroded from the loans side.

The banks have traditionally maintained a spread of three points between deposit and "best lending" rate. However, the Hong Kong Interbank Offered Rate (Hibor) has traditionally been below "best lending" rate and is not controlled by the interest rate rules. There are signs that more and more loans are being arranged at this rate. "Many of the big syndicated loans and bigger loans not syndicated are now expressed in terms of Hibor," says Mr Welsh.

The licensing of new foreign banks and the liberalisation of the wholesale money market are signs that Mr John Bremridge, the new Financial Secretary, has more of an eye to the needs of Hong Kong as a regional financial centre than the calls of local banks for protection. Until now Tokyo has ruled itself out as a banking centre for the region, and Hong Kong stands out as an obvious alternative, backed by the huge money flows associated with its role as an entrepot for China's international trade.

The other main rival is Singapore, which had been enjoying an *artificial* advantage until recently due to Hong Kong's imposition of a withholding tax on foreign currency deposits.

The banking industry has been urging the authorities to relax the withholding tax for several years. Last February in his Budget speech Mr Bremridge announced that the 15 per cent withholding tax on foreign currency deposits would be withdrawn immediately, while the rate on Hong Kong currency deposits would be reduced from 15 per cent to 10 per cent. The results have been dramatic, with bankers estimating that foreign currency deposits rose by 20 or 30 per cent in the first couple of months.

It is still too early to say to what extent this was a one-off shift back home of deposits held abroad by local residents. It is likely, however, that more international money will find a home in Hong Kong, and that the territory's status as a funding centre, negligible until this year, will be enhanced.

This in turn will boost Hong Kong's already strong position as a regional centre for loan syndication. Until now the pattern has been for Singapore to take predominance in funding centre terms, and for Hong Kong to have the edge when it came to loan syndication.

One syndication banker estimates that, wherever the loans may be booked, well over half of the work in arranging loans in the region is undertaken in Hong Kong. The banks heavily involved in syndication include big U.S. names like Chase Manhattan, Citibank, Manufacturers Hanover, and Bank of America.

From the UK, Lloyds Bank International, the Midland and NatWest are active as are French and West German banks. The size of the loans are going up, while countries like Sri Lanka, India and Papua New Guinea are raising their profiles in the market. Nevertheless there are a lot of banks chasing the business, so rates tend to be fine.

Fine rates in the Asia-dollar market mean that it is scorned by local banks like the Hongkong and Shanghai, since domestic retail banking can be so profitable. According to Mr Stevens all the nine branches so far established by Barclays Bank International have been profitable within a year of opening.

The Hongkong and Shanghai Bank's results underline the benefits of operating in an expanding economy. Between 1979 and 1981 its earnings per share have grown at the rate of 35 per cent compound annually.

Unlike the UK, current accounts represent only 14 per cent of Hong Kong banks' retail deposits. Nearly half the total is held in savings accounts, which currently offer a 10 per cent rate of interest, and from which instant withdrawals can be made. So Hong Kong tends not to be a cheque-book society. Instead, customers usually draw out cash from their interest-bearing savings accounts when they want to spend.

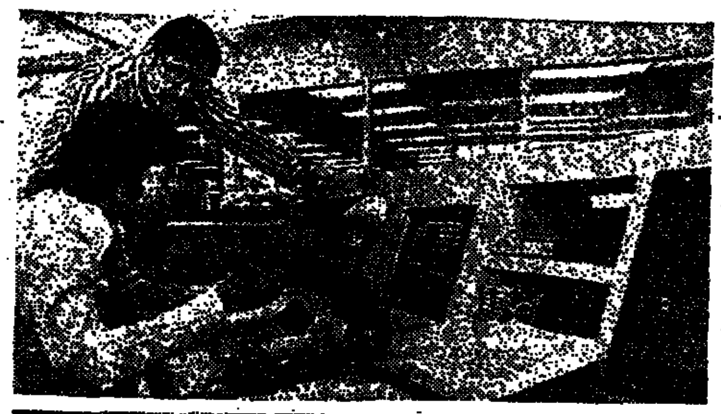
Branches can be open to 11 pm to supply cash requirements, and of course the more branches it has, the more attractive a bank is to its customers. On the other hand, these extensive networks are extremely expensive.

If interest rates drop, and the pressure on the interest rate cartel intensifies, there might have to be some retrenchment in branches. Already there are mutterings about introducing bank charges on the lines of the UK.

Meanwhile, the chairman of the Hongkong and Shanghai Bank has warned shareholders to expect a slower rate of progress this year, which underlines the slowdown in borrowing in the territory in the light of high interest rates. For some banks, which backed untried property developers in the recent boom, there might be some bad debts coming home to roost.

# Range continues to widen

**FINANCIAL SERVICES**
DAVID FREUD



**Above: two dealers consider currency price movements in the foreign exchange market. Left: Mr. Christopher Eugster, managing director Kleinwort, Benson (Hong Kong). Right: Gold bars wheeled into the vaults of a bank. Gold dealings in Hong Kong are an important market**

IT IS a cliché among businessmen in Hong Kong that the territory is the world's third most important financial centre after New York and London. While no one could deny that there are some vigorous markets there are also some significant gaps in the range of financial services on offer, although some of these are being rapidly closed.

Perhaps the most obvious is the absence of a bond market. The Government of Hong Kong traditionally runs a financial surplus, so it is not surprising that there is no Government paper on offer. It is likely that this represents a key reason for the failure of a commercial paper market to develop.

The nearest approach to it is a market for certificates of deposit fostered by some of the foreign banks in the past few years, in particular Citibank, the Bank of Tokyo, Barclays Bank and Crédit Lyonnais. The merchant bank Jardine Fleming has been particularly active as a secondary market maker here.

Hong Kong has had an active insurance market for many decades, but it is only in the past 10 years that insurance brokers, mainly from the UK and the U.S., have begun to make their presence felt. In the marine hull market the brokers still tend to turn to the London insurance market to place their business.

The interbank market is active, and most international money brokers have operations in the territory. While short-term foreign exchange positions can be matched each way, however, it is very difficult to cover long-term foreign currency liabilities. This is because Hong Kong does not specialise in supplying capital projects and therefore no one has long-term foreign currency assets against which they can be matched.

As Mr Christopher Eugster, of Kleinwort, Benson (Hong Kong), points out: "This is a severe limitation."

Hong Kong is certainly the third most active place for gold trading, however.

Fund management also seems to be becoming an increasingly significant part of the territory's financial armoury. Among the most important fund managers in Hong Kong are Wardley, Jardine Fleming, Henderson Baring, GT, Gartmore and Fidelity. The clients are mainly international.

There is some local institutional money, as provident schemes become more popular. But, with life insurance a minimal factor (considered unlucky among the Chinese community), institutional funds are strictly limited and tend to be related to the established Hongs.

Wardley, a subsidiary of the Hongkong Bank, and Jardine Fleming therefore tend to pick up the lion's share of this business. Local individuals, meanwhile, tend to do their own investing in the domestic market, while if they invest abroad their first choice tends to be the U.S. and the likely intermediary one of the big U.S. banks.

Henderson Baring is one of the fastest growing fund managers based in Hong Kong and from a standing start in 1975 it now has U.S.$800m under management. Some 60 to 70 per cent of the funds under management are institutional, and two-thirds come from the UK. The main area of investment is the Tokyo Stock Exchange. Even though the headquarters of the fund is in Hong Kong, it has hardly any investment in the local market.

So why is the fund based in Hong Kong? According to Mr John D. Bolsover, the managing director: "If you invest in the Far East you want to be on the spot. We preferred Hong Kong to Tokyo partly for tax reasons and partly because it is an easier place for expatriate staff to live.

"People speak English and there are domestic support services. Furthermore, while the Japanese are terribly polite to visitors, they tend to be suspicious of foreigners actually living in Japan."

Turning to the gold market, the Kam Ngan (Chinese Gold and Silver Exchange) dates from 1910 and, having built a strong reputation for reliability and efficiency over the years, achieves substantial volume. Foreign brokers were attracted in the second half of the 1970s by the arbitrage possibilities and an active and separate market has developed.

In 1978 there were six bodies making prices on the market; the number has now moved up to 18 and includes the six major London houses, three Swiss banks and several U.S. brokers. The Loco-London market, as it is called, now handles more volume than the Kam Ngan.

Even so, the Kam Ngan remains of key importance. According to Mr Geoff Gratton-Brunt, managing director of Sharps Pixley Wardley: "The Loco-London market sets its prices very much on the base established by the Kam Ngan, taking the Hong Kong U.S. dollar exchange rate into account."

HONGKONG AND SHANGHAI BANKING CORPORATION

# Success and a hint of mystery

THE DOMINANT banking force in Hong Kong is the Hongkong and Shanghai Banking Corporation. It has a network of 270 branches in the territory and by market capitalisation is one of the biggest financial institutions in the world.

It owns a 60 per cent stake in the Hang Seng bank, the second biggest bank in the region, a "Chinese" bank which has a network of 62 branches and plans for a further 18 well advanced.

The corporation—often referred to simply as "The Bank"—is the adviser to the Hong Kong Government in banking matters and is responsible for more than 80 per cent of the note issue in the territory.

It was founded in 1865, but was hard hit by the Second World War and the communist revolution in China, where it lost all but its Shanghai branch. Since then it has expanded rapidly, and, in addition to the Hang Seng, has significant holdings in the Saudi British Bank (40 per cent) and the Marine Midland Bank in New York (51 per cent).

Other businesses include Wayfoong Finance and the merchant bank Wardley in Hong Kong, and outside Hong Kong the Mercantile Bank in India and Antony Gibbs in London. Through Wayhong Investment it holds significant stakes in Cathay Pacific Airways, the South China Morning Post and various offshoots of Sir Yue-kong Pao's worldwide shipping group.

Its latest expansion move—the widely publicised attempt to take over the Royal Bank of Scotland—was thwarted by the UK Monopolies and Mergers Commission. It has not yet decided on an alternative strategy.

According to Mr Tom Welsh, a general manager of The Bank, "We got bogged down in the Marine Midland deal which took much longer than we expected and which diverted our attention for a long time.

"When the announcement of the Royal Bank Standard Chartered deal came through we jumped in and that occupied our energies for quite a while. We are still in the aftermath of that; still trying to *think* where we are more than where we're going."

However, The Bank has clearly not given up all hopes of gaining a significant presence in UK retail banking. "We could move into the UK still if the right opportunity came up," says Mr Welsh. "One would like to think saner counsels would prevail if a deal emerged in the interests of both parties and that it would go through."

The Bank has a reputation for being mysterious, partly because of its policy of maintaining secret inner reserves. *This practice is perhaps not too exceptional in international terms but its reputation is more justified when it comes to attempts to unravel how its conducts its business, and from where it derives its profits.*

*It is clear that The Bank's big retail deposit base gives it plenty of funds for its own loan book, and it is a very significant lender on the interbank market. On the loans side, the three most significant businesses are probably import/export finance, and backing for property and shipping.*

One technique that stands out in The Bank's history is *the way it has picked successful entrepreneurs and backed them to the hilt. Critics would argue that any bank with such a wide customer base would have come across the entrepreneurs, while the economic growth of Hong Kong made it difficult for them to fail.*

Mr Welsh points out: "This is our head office and where we make our decisions. Other banks have head offices elsewhere, and while the local branch might want to go for bust on someone they might find it difficult to persuade head office."

Some of the successful entrepreneurs backed up by the Bank are now on its board—including such well known businessmen as Sir Yue-kong Pao, deputy chairman of The Bank, and Mr Li Ka-shing, chairman of Cheung Kong.

D.F.

*Mr Tom Welsh: waiting for the right opportunity in the UK*

THE BANK OF CHINA

# Strong commercial links in the territory

The Bank of China, based in Beijing, has had a branch in Hong Kong since the 1920s. Expansion has led to the establishment of a further 10 sub-branches in the territory. This understates, however, the true banking presence of the People's Republic of China, for there are an additional 12 sister banks which are also controlled from Beijing.

They have very close relations with each other and in total operate more than 200 branches in Hong Kong, the second biggest network after that of the Hongkong and Shanghai Bank.

The Bank of China is very much a commercial bank in Hong Kong and is involved in a wide range of business, from lead managing syndicated loans to backing property developments and providing mortgages. Its most important activity is connected with trade with mainland China.

Mr H. Chen, senior deputy general manager of the Hong Kong branch, estimates that something like three-quarters of the branch's business is connected with loans for imports and exports to and from the mainland.

The sister banks have a very strong position in this trade, although other Hong Kong-based banks are now trying to break in, and have been opening offices in cities like Beijing and Shanghai. The Hong Kong branch is also an important foreign exchange centre for the mainland, with substantial transfers of Hong Kong dollars into trading currencies like the U.S. dollar.

The branch enjoys a fair measure of independence from head office control in terms of the day to day running of its business. Deals must move up into the HK$10m region before they are in the area where approval from central office may be required. According to Mr Chen, "most of the time we can handle the business in Hong Kong."

The branch started to transfer its accounts onto computer three years ago. So far it has transferred savings accounts, fixed deposit and current accounts, and is now working on businesses like bills. The programme includes all the sister banks so it is likely to take some time yet. Meanwhile, the branch has ordered cash dispensing machines, and should be installing them this year.

A growing business for the branch is financing projects in the new economic zones established on the Chinese mainland near Hong Kong. So far loans for this purpose have been extended mainly to small and medium-sized businesses. Progress, while steady, is still slow, and many Hong Kong businessmen are wary of projects in the zones because of the lack of infrastructure.

Meanwhile, in recent years the branch and its sisters have become a formidable force as deposit-gatherers, with the immigrant workforce turning to it as the best way to transmit money to relatives on the mainland. The sister banks are now pushing hard at the Hongkong and Shanghai's traditional dominance in this area.

D.F.

# Travelling down the Western road

HONG KONG'S HEALTHY appetite for the good things in life means that it has four stock exchanges. The Hong Kong Stock Exchange is well established, but at the time of the boom in the late 1960s and early 1970s its operation was widely perceived to be hide-bound and restrictive. So in 1969 the Far East Stock exchange was set up, and its success spawned the Kam Ngan Stock Exchange two years later.

In 1972 the Kowloon exchange also opened for business—but never really got off the ground and today handles only 1 per cent of turnover. By comparison the Far East handles about 48 per cent, the Kam Ngan 35 per cent and the Hong Kong 17 per cent.

For a population of 5m, four separate exchanges was clearly an unnecessary extravagance, so plans for unification are well advanced, although the new all-embracing exchange now looks likely to be ready in 1985 rather than in 1984 as originally planned. The main problem of unification will be one of scale.

The trading system on all the existing exchanges is broker to broker, with selling and buying offers marked up on huge expanses of white board and direct response by other brokers. On busy days the scramble to mark up can become physical. A new unified exchange would have no fewer than 2,000 floor traders, and it takes only limited imagination to understand the chaos that could ensue.

The elected chairman of the unified exchange, Mr Woo Hon-Fai, at present the chairman of the Kam Ngan, undertook at the end of last month a tour of some of the world's major exchanges, including visits to the U.S. and London.

He says that no decision has yet been reached on how trading on the new exchange will be organised, but the likelihood is that the present broker-to-broker arrangements will be maintained and there could possibly be an electronic means of matching bargains and settlements. Furthermore, of the 2,060 trades, many represent overlapping family interests, so there might well be considerable consolidation of seats.

The unification is thoroughly welcomed by stockbrokers. According to Mr Frank Heath, a director of Sun Hung Kai, the leading firm of local brokers,

## UNIFICATION

DAVID FREUD

the existence of four exchanges was an anachronism reflecting personality conflicts more than anything else.

"It will be much better to have an unfragmented market; it will cut down rumours, allow computerised settlement and a better index," said Mr Heath. "It will also make Hong Kong appear more professional in the eyes of outside investors."

At one stage there was concern that foreign brokers—essentially those based in London—would be excluded from membership. Most of the brokers did not have full membership of exchanges, tending to use the specialist trading brokers on the floors to conduct their transactions, and dividing the commission with them. Some of the brokers have been hurrying to establish full membership, but it looks as if their worries were exaggerated. Certainly, Mr Woo Hon-Fai has come round to the view that all established traders should be accepted. "Of course people who are already established here will be allowed on the new unified exchange," he says.

The free-for-all in stock trading came to an abrupt end when the market collapsed in the mid-1970s and the Government stepped into the arena to take some measure of control. The shutters went up on the creation of new exchanges in 1974.

At the same time a Securities Commission was created. The history of this until now has not been particularly happy. The previous Securities Commissioner Mr Ulsden McInnes, retired prematurely last October after heavy criticism of his lack of effectiveness.

Three incidents in particular have been singled out. The takeover of the China Motor Bus Company last summer left the commission with egg all over its face, since one of two competing rivals managed to gain an unfair advantage over the other in the battle by sneaking in a clause in its offer document that allowed it to withdraw its tender offer if it obtained enough shares in the market.

The commission was also left looking ineffective in the summer of 1980 in the takeover battle between Hong Kong Land and Sir Yue-Kong Pao for the control of the Hongkong and Kowloon Wharf and Godown Company.

Similarly, the slowness of the Commission in getting an investigation of leaks when the Hongkong and Shanghai Bank sold a 22 per cent stake in Hutchison Whampoa has been a major factor in the indeterminate conclusions reached in the inquiry.

Mr Robert Fell, chief executive of the London Stock Exchange, took over on a temporary basis in November, and was established as the permanent Commissioner on April 1.

He says, "My aim is to have a statutory body that hopefully will produce a stock exchange that will see that self-regulation is self-interest. I want to get the exchange working at the front end, while the commission will be there with statutory power in the background, in a monitoring role."

Basically, he is happy with the market mechanisms. "It is one of the very few exchanges where an individual can give an order and watch his broker do the deal." Nor is there a significant amount of bear selling, a criminal offence.

The main shortcomings lie in the area of listings, where company announcements can fall short of what is desirable and the quality of information can be low. Something of a watershed over listings was passed last month, when Mr Fell firmly signalled that he would not tolerate a casual attitude to listings by conducting spot checks in brokers' offices.

This followed a particularly flagrant operation when 82 per cent of the shares of a shell company on the Kowloon Stock Exchange, New Era, were bought by Mr Chim Pui-chung. The Commission told him to buy out the minority. But without doing this, Mr Chim managed to obtain a listing for the shares on the Far East and Kam Ngan exchanges, where 20 per cent of the shares were promptly placed. Bought for 50 cents, the shares were standing on HK$1.40 by the end of the operation.

It is not yet certain whether an initiative to obtain share disclosure will be launched. Hong Kong still operates on legislation more similar to the 1948 Companies Act in the UK than anything else. New legislation is being prepared, possibly for publication next month, and no decision has yet been reached on whether to include share disclosure provisions.

A lot of people oppose such a change, and Mr Fell himself admits that some responsible arguments can be made against it. "After all, at this stage in development, what is wrong with being the Switzerland of Asia? There is a lot of money moving in and out which might not if there were disclosure." On the other hand, without disclosure it will remain very difficult for the commission to monitor insider dealing, manipulation and take-over moves. One possible compromise might be private disclosure to the commission, with notification of stakes of 10 per cent and up.

Meanwhile, a simple takeover code has now been established, with a trigger point of 35 per cent substituted in October for 50 per cent as the point at which a full offer for outstanding shares has to be made.

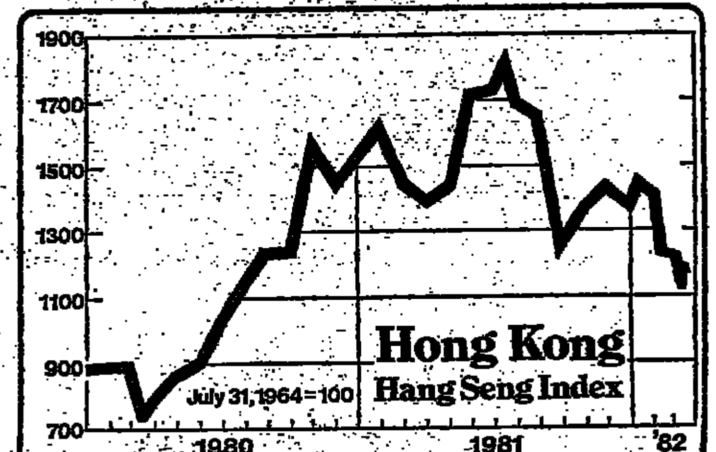
Mr Robert Fell: happy with the market mechanisms

This is unlikely to be enough to shelter widows and orphans from the hurly-burly of a tough market place, apart from which many prominent businessmen view the code with less than respect. Nevertheless, once introduced, regulations have a way of expanding, and in this case there is strong self-interest at work to make the Hong Kong market a respectable place in the eyes of institutional investors. Step by step Hong Kong is proceeding down the road that has been travelled by stock exchanges in the West.



# Property sector still dominates equities

THE STOCK MARKET in Hong Kong is a volatile place, but much less so than it used to be. In 1973-74 the Hang Seng index collapsed by more than nine-tenths. So the fall from last July's all-time peak of 1810 to a low of 1114 in early October seems by comparison the merest hiccup.




The property sector dominates Hong Kong equities, accounting for perhaps 60 per cent of the total. So it was events and repercussions in the property market that produced the run up to last July's peak and the subsequent slump.

A rapidly expanding money supply fuelled a runaway property market in late 1979-80, and last spring the stock market was further stimulated in spite of the high level of interest rates — which were standing at 17 per cent. The Government announced plans to phase out residential rent controls, while there was an enthusiastic response to the issue of International City Holdings and signs of foreign interest.

At the same time as the stock market was reaching its peak, the gap between U.S. and local interest rates had widened to 3½ percentage points, and the currency was coming under extreme pressure. The trade-weighted index of the Hong Kong dollar fell from 88.9 at the beginning of the year to 81.2 in September.

The implications of this were absorbed by the stock market from August onwards, with a particularly severe collapse in September. The Government pushed through the anticipated

## SE TRENDS

DAVID FREUD

corrective measure in October, when it "persuaded" the banks to raise prime lending rates by 2 points to 20 per cent.

The property market, which had come off the boil by the beginning of last year, stopped dead in its tracks. Developers began to cut prices, albeit in a disguised way, and a couple of deals failed to turn up with the usual fat returns. So shareholders hurried to pull clear of the development companies.

The shake-out was exacerbated by the prevalence of margin trading, while a HK$9.6bn stream of rights issues and flotations over the year did little to underpin prices.

Since October the market has fluctuated between 1100 and 1450, and in this area seems fairly solidly based, unless there is a shock like a couple of second-line property companies going under.

Sun Hung Kai Securities estimates that profits should rise by 15 per cent this year, which compares with 80 per cent in 1981, and at this level the prospective market p/e is 9½ or so, while the prospective yield is 7 per cent.

On the other hand, the 1982 profits are still underpinned by the appreciation of land values of recent years. Next year the impact of the fall in the property market will be reflected in the profits of developers. So overall earnings may drop back in 1983.

Dependence on property developers is not the sole cause of the Hong Hong market's volatility. Choice is narrow; while 240 stocks are quoted, only perhaps 15 are freely traded. Moreover, while total market capitalisation is stated to exceed HK$200bn, in reality it is much smaller, due to the

**STOCK AND SHARES**

| Year | Total turnover HK$m | Hang Seng Index (31.7.64=100) |
|---|---|---|
| 1977 | 6,127 | 425.30 |
| 1978 | 27,419 | 526.91 |
| 1979 | 25,633 | 619.71 |
| 1980 | 95,684 | 1,121.17 |
| 1981 | 105,987 | 1,506.84 |

extent of cross shareholdings within the company sector.

The Hongkong and Shanghai Bank, for example, owns 60 per cent of the Hang Seng, while Cheung Kong owns 42 per cent of Hutchison Whampoa. Jardine Matheson holds a net 35 per cent of Hong Kong Land, which in turn owns 40 per cent of Jardine Matheson. And so it goes on. This factor may reduce the size of the market by 30 per cent.

Meanwhile, the speed of the economic growth since the 1950s means that the founders of many major companies retain controlling stakes. So the number of free shares is more limited than it looks.

Information is poor, and the company accounts can be obscure to downright misleading. So what a company is achieving or plans to do tends to emerge in a haphazard and unpredictable way—encouraging rumours and sharp movements in company share prices. As Mr Barry Yates, of stockbrokers Hoare Govett, points out: "It's a personality market in the sense that particular individuals have a lot of power, so one has to know what they are thinking and doing, and their relationships."

Speculation has always played an important part in the market, and there have been several highly publicised takeover deals and battles in recent years. The property boom pushed the ratings of the new development companies—often Chinese controlled—into high ground. From that vantage point they aimed at gaining under-utilised assets, generally companies with surplus land or property.

On a more positive note, however, the market is liquid and sees a high level of turnover by comparison with other stock exchanges round the world. Moreover, since the market is still dominated by individuals, there tends to be a much greater variety of sentiment than, for instance, in London, where institutional dominance leads to a similarity of views and one-way trading.

The institutional presence is growing, nevertheless, and may now account for 30 per cent of activity. Last year turnover amounted to nearly half of total market capitalisation, although on the first quarter of 1982 activity has been running at less than half this level.

The high level of turnover is encouraged through a 0.5 per cent brokers' commission, while stamp tax on each transaction is only 0.3 per cent. Meanwhile there is no capital gains tax and no withholding tax on divi dends for foreign investors.

Since the property collaps the ratings of developers hav come back a long way, as th market has paid more emphasi to the quality of earnings. Thi means that in property a renta stream is more highly value than development profits, whil historically European-controlle trade houses—the "Hongs"— financial institutions and util ties have outperformed.

Many property men believ that it will be between thre and five years before th property sector picks up agai So utilities, finance and trac at present appear the best wa of plugging into Hong Kong growth trend in the near term

So far there are relative few quoted vehicles in th manufacturing sector—but th new attitude to earnings quali may encourage more to come the market. According to M Frank Heath of Sun Hung Ka "We might well see a switc from property back to manufa turing."

So where does the market from there? The Hong Kon economy may be slowing dow by its own standards, but th still means an official forecast 8 per cent real growth in GI this year. In fact, growing pr tectionism in the develop world, over textiles for instanc may mean that the outcome rather below this. Neverth less, the economic backgrou can hardly be considered u healthy. However, the proper market is unlikely to provi much excitement in the sho term, as the weight of new committed developments com onto the market.

At about 12 per cent, t inflation rate is still high, b it is well down from the pe of 17 per cent, and falli The growth in money supply likewise well down from pe levels. So, while interest rat are currently high, at 16 p cent, there may be scope f movement in a downwa direction.

Meanwhile, institutional liq dity is high and excitement the market last month seem to change sentiment amo fund managers. They were a ing their brokers whether th should be following the mar up rather than, as befo whether they should be getti out at relatively favoura prices.

It is noticeable that any lapses have been taken as immediate buying opportun in recent weeks by the insti tions. Takeover speculat remains an all-important fact The recent buoyancy of t market was fuelled by t moves by Hong Kong Land take stakes in the telepho and power utilities.

So, at current levels, it lo as if the Hong Kong market h found its equilibrium but so shock collapses in the prope sector later this summer autumn—which cannot be ru out—could deal the m favourable sentiment a sava blow.



*On the commodity exchange trade in cotton futures remains in suspension rather than closed*

# How the soya market gave a boost to sugar

AFTER A VERY rocky start five years ago, the Hong Kong Commodity Exchange has now begun to pay its way. It still remains small by the standards of, for instance, Chicago and is over-reliant on business generated by Japanese members. Nevertheless, with contracts in both soyabeans and sugar firmly established, the exchange is now vigorously investigating plans to introduce platinum contracts and a financial futures market.

On a less happy note, last September saw the abandonment of trade in cotton futures—although the market remains in suspension rather than closed—while a series of changes designed to make the gold contract more attractive have so far failed to stimulate interest.

The exchange opened in May 1977, offering a cotton futures contract. Since some 80 per cent of world raw cotton production was bought in the region, the idea was to offer manufacturers a hedging opportunity, something that initial research indicated they would welcome.

In practice the spinners continued to prefer taking their own price risks, rather than hedging them. There was no financial incentive for them to hedge, as in New York, where banks took a dim view of spinners who left themselves exposed to the risk of volatile price changes.

In Hong Kong the market became dominated by a single merchant and this may have frightened others away. So, last September outstanding contracts were balanced out. All the requirements for a market are retained, however, including an agent in Texas and it could be re-activated on demand. The exchange is investigating ways of doing so.

## Second contract

Sugar was the second contract to be introduced, in November 1977 and again trading was extremely thin for the next two or three years. The problem was that while Hong Kong had and has plenty of individuals prepared to take speculative positions, there was a shortage of commodity users wanting to hedge.

With this problem in mind, Mr Peter Scales, the chairman of the exchange, invited a delegation of Japanese brokers to dinner. "They were a significant proportion of our total membership—about 20 per cent—and I asked them what they thought the exchange could do for them.

"They formed themselves into a group of traders and said the exchange could usefully develop a soyabean market. There was a large physical demand in the region, particularly from Japan. Meanwhile, they wanted the market organised in their own way."

So in November 1979 a soyabean contract was initiated. Instead of open outcry in which individuals agreed various deals, the market was arranged to accommodate group trading, in which a single price is established in a similar way to the London gold fixing, at four calls a day.

The contract was based on the 60-kilo bag used on the Tokyo exchange, and the calls were timed to succeed those in Tokyo. The price in each call is established through hand signals—the system developed in Japan to cope with orders coming through on headphones.

The Japanese find the market conveniently situated to collect orders through the region. The tax regime is less onerous than in Japan, and the timing of the calls gives the maximum scope for arbitrage opportunities. So the market took off. Last year 442,708 lots were traded, a gain of 150 per cent on 1980. This year volume has been running at twice this rate, bringing activity up to the levels seen in the Tokyo market itself although Chicago remains many times busier.

The soya market gave a boost to the sugar contract, which had by then more or less died on its feet and in 1980 the sugar contract was re-established to allow the group trading system the Japanese brokers preferred. Again this produced a very encouraging trend, and the number of lots traded went up by 565 per cent last year to 119,534.

COMMODITIES TURNOVER (in lots)

| | 1977 | 1978 | 1979 | 1980 | 1981 |
|---|---|---|---|---|---|
| Soyabean | — | — | 9,023 | 170,482 | 442,708 |
| Sugar | 1,410 | 2,323 | 109 | 17,969 | 119,534 |
| Gold | — | — | — | 26,674 | 32,740 |
| Cotton | 9,151 | 6,908 | 507 | 14,630 | 15,914 |
| Overall | 10,561 | 9,231 | 9,639 | 229,755 | 610,896 |

Source: The Hong Kong Commodity Exchange.

The most important thing about these two contracts was that it put the exchange's finances on an even keel. The exchange is now easily covering its running costs and has managed to pay off its start-up expenses completely.

Last year total income was HK$8.1m, and while the levy on contracts was an important source of funds, interest receivable took over as the most important contributor. Overall expenses last year represented only a quarter of total income.

With two relatively successful contracts behind it, the exchange has been looking for further opportunities. Since the Chinese are known the world over for being inveterate gamblers, it is no surprise that the exchange has never felt a lack of speculators. As well as the Chinese population of Hong Kong there is plenty of interest elsewhere in the Pacific basin, from individuals and companies in Malaysia and Indonesia. The exchange has had a great deal of difficulty in attracting their counterparts, hedgers, who wish to cover risks.

While membership of the exchange runs to about 150, only a third of these are active on the floor. The rest have obtained membership as a way of gaining acceptance in other commodity exchanges round the world. Of the 50 or so active traders, 28 are Japanese brokers, who still dominate the trading. Against this background, it is perhaps not surprising that the gold contract introduced in August 1980 has not been successful.

Gold has traditionally not been high on Japanese priorities. While this may be changing, the Japanese authorities are making sure that business is conducted at home.

Last year a private gold market was opened in Japan, and a futures market opened in March. Against heavyweight competition, the Hong Kong market has got nowhere. Only 15,914 contracts of 100 ounces were traded over the whole of 1981 and the daily rate is even lower. While the Japanese brokers feel inhibited about trading in gold in Hong Kong, there is stiff competition attracting local investors in the shape of two spot markets.

## Gold and silver

The Chinese are attracted to the Gold and Silver Exchange (Kam Ngan) which is unregulated and where tax collection is accordingly not strictly enforced. Even bigger is the extension of the London market run informally by branches of London bullion dealers, known as the Loco-market.

The commodity exchange has made various changes to its gold contract to make it more attractive over the past year. It introduced same-month delivery; and allowed traders to take out in cash part of their paper profits without closing a contract, to encourage the aritrageur. So far the required impetus has been lacking, and the exchange is considering what further adaptations to make.

There is more prospect of a successful platinum contract developing, however, and Mr Scales hopes that one may be introduced before the end of the year. The contract has been proposed by some Japanese members of the exchange, since the metal is heavily imported into Japan. So far the only place to offer a contract is New York, which is inconvenient for timing reasons for the Japanese. The exchange is investigating whether physical availability and specification can be guaranteed; if it is satisfied the contract will go ahead.

The other key development concerns financial futures. The exchange has set up a working party to investigate possibilities, but their findings so far are at an early stage.

The exchange is very closely tuned in to what is happening in London, where the London International Finance Futures Exchange is due to open in the autumn. Over its shoulder it is also watching the progress of its main rival in the South Pacific, Singapore, which has in its turn established a working party on financial futures.

The likelihood is for tw[o] series on contracts, one base[d] on currencies and the other o[n] interest rates. Hong Kon[g] issues no long-term debt, s[o] there cannot be the equivalen[t] of the proposed gilt-edge[d] contract in London.

The Japanese membership [is] not expected to be interested i[n] financial futures, at least not [in] the early stages, so it will be [a] tough challenge for t[he] exchange to make the contra[ct] work. In essence it will ha[ve] to build an entirely new acti[ve] membership to participate.

The problem is the conve[rse] of that in London, where the[re] are likely to be plenty [of] hedgers but possibly a shorta[ge] of speculators. In Hong Ko[ng] there should be no shortage [of] speculators—so on the face [of] it the Hong Kong and Lond[on] financial futures markets cou[ld] prove a natural fit.

There are also hopes [of] finding hedgers in Hong Ko[ng] itself, which has a wide spe[c]trum of trading business exposed to the greater-tha[n] average currency vagaries [of] the Hong Kong dollar. Wheth[er] they will prefer to take on the[ir] own risk—like the cotton sp[in]ners—only time will tell.

**David Fre[...]**

WINSOR INDUSTRIAL CORPORATION

# Main operation stays local

Winsor Industrial Corporation is the largest publicly-traded textile company in Hong Kong. It is also one of the few vertically integrated companies, producing yarns, fabrics and garments. The chairman, Dr T. K. Ann, was an import/export trader in Shanghai — where he wrote a university text book in Chinese on trading— before moving to Hong Kong in 1948.

He set up Winsor with a group of friends in 1951, and the company went public in 1969. The cares of running a successful company have not stopped him writing, however, for Dr Ann is midway through publishing a five-volume work introducing an integrated system by which Westerners can learn Chinese.

The company's growth has been rapid. In 1969 external sales were HK$201.2m, rising to HK$1.2bn. Net profits have risen even faster, from HK$14.1m to HK$107m, helped significantly by a series of acquisitions.

Even in terms of earnings per share, however, growth has been running at 15½ per cent compound annually. Through the 1970s Winsor has been moving up market, and now is involved in areas like fashion designer clothes.

The recession round the world and export quotas have helped to produce a slowdown in the last couple of years. In 1981 there was a decline in profits for the first time since 1975. The company is caught between rising costs in terms of rents and wages and stagnant prices.

Dr Ann points out, however, that even last year the return on capital was considerably higher than that achieved by competitors in the U.S. and Japan. The return on capital is in fact still above 20 per cent, albeit in terms of historic costs.

Dr T. K. Ann, chairman: expansion reined back

Nevertheless, it is noticeable that the uncertainties over the future and worries about protectionism in the West have reined back expansionist plans in the group. Capital commitments in the current year are down from HK$12.6m to HK$3.3m, admittedly after a period of high capital expenditure. At the same time the group last year closed down one of its spinning and weaving factories, and is redeveloping another site in a joint venture property deal.

The group's style is to operate through six independent subsidiaries which are responsible for their own operations. Intra-group trading is conducted at arm's length prices. Winsor has recently extended its operations in Macao, where wages are lower, but the main operation is likely to remain Hong Kong for the foreseeable future. As Dr Ann points out: "None of the companies which have switched their operations overseas have been very successful."

JARDINE, MATHESON

# End of difficult decade

Mr David Newbigging, chairman: expanded too rapidly

THIS YEAR Jardine, Matheson and Co., the leading Hong Kong business celebrates its 150th anniversary. Throughout its history the company has been closely involved in the key developments in Hong Kong. It has been publicly quoted since 1961, and still maintains its original Hong Kong interests in shipping-related and financial services.

The past decade, however, has been difficult for Jardine. It started the 1970s as the acknowledged doyen of Hong Kong companies; now it is an also-ran in terms of market capitalisation. The reason lies in the profits record. Jardine's earnings per share have risen by a relatively low 318 per cent since 1972; by comparison those of the associated company Hong Kong Land have increased nearly eight times.

In the 1970s Jardine pushed through an aggressive diversification programme outside Hong Kong, and accordingly missed out on the sharp profits growth of the domestic property market. Moreover, the returns from the foreign acquisitions failed to match their promise — at least in the early years. Mr David Newbigging, chairman of both Jardine and Hongkong Land, says: "With the benefit of hindsight we expanded too rapidly. Subsequently we actually moved back into Hong Kong."

The main diversifications abroad were a Hawaiian sugar company in 1973, which last year made a loss; a major interest in Rennies Consoliated in South Africa in 1975; and a minority shareholding in Transporting and Trading Company in the Middle East in 1976. In Hong Kong the company bought a substantial construction and civil engineering group, Gammon (Hong Kong) and 75 per cent of the Zung Fu vehicle trading company. These two have tended to perform rather better than the foreign acquisitions.

In fact, with the property boom well off its peak, the relative quality of Jardine's profits might have allowed it to make up some of the lost ground in the coming years. However, it may find itself hobbled by a decision taken in 1980 to build a 35 per cent stake in Hongkong Land. This had led to high capital gearing, which will reduce the room for manoeuvre and will take some years to be brought down to a more comfortable level.

At the same time Hongkong Land built up a 40 per cent stake in Jardine, and critics charge that the reason for the development of the cross-shareholdings was to establish a mutual defence against takeover attempts.

Mr Newbigging denies this and claims that the timing of the share build-ups was coincidental. "Jardine had a long relationship with Land, yet over the years the shareholding declined to less than 5 per cent. So Jardine decided as a matter of policy to build up the shareholding again. Meanwhile, the Land company's strategy was to broaden its operation a bit from pure property to other interests. So it decided to invest in Jardine."

Whatever the origins, the extent of the cross-shareholdings requires that investors master the intricacies of accounting theorist Professor Bogie's patented equity accounting method for dealing with this eventuality. On their own, the "clean" profits of both companies would total HK$1.37bn after tax and minorities. In fact, the stated total runs to HK$2.15bn.

This is because Jardine's net earnings of $723m include a 35 per cent share of Hongkong Land's $1.4bn, which includes 40 per cent of Jardine's $723m; and vice versa. The swelling of the simple "clean" figures is not so reprehensible as at first it appears. The cross-shareholdings mean that profits are ultimately attributable only to the outside shareholders of each company, and the earnings per share should be increased accordingly.

HUTCHISON WHAMPOA

# A strong balance sheet

HUTCISON WHAMPOA has roo stretching back to the earl 19th century, and has bee rescued twice from finacial disaster by the Hokong and Shanghai Bang Corporation, once in the last century and on the secd occasion in August 197 Nevertheless, it now has one of the strongest bace sheets of the major coanies in Hong Kong, and its gh cash flow will allow it undertake a formidable deypment programme thighout the rest of the dele.

It is controlled by the fast-growing Cheung Kong prty group, which now hd a 42 per cent stake, af the transfer of The B's 22 per cent stake in Smber 1979.

In late 1960s Sir Douglas Cle, the chairman of Hison International, as it when called, went on a by spree. From only H3m in 1964 the company's issued capital expd to almost HK$250m by end of 1974, and net p rose from HK$10.8m in5-66 to $136m in 1973-74.

The purchasing of assets was particularly heavy through the period of the Cultural Revolution in China. In the words of Mr John Richardson, the present chief executive, "He went long when everyone else was going short." In retrospect the most important acquisition was a controlling stake in the Hongkong and Whampoa Dock Company.

Over-extended, the 1974 recession caught the company in a cash-flow trap, while particular problems emerged in an equipment suppliers business in Indonesia. With pressure emanating from British and U.S. banks, The Hongkong Bank made a tender offer for 30 per cent of the stock for HK$150m and a new chief executive, Mr Bill Wyllie stepped in.

The policy was to sell excess assets for cash — with one important exception. The stake in the dock company had been eroded from 43 per cent to 28 per cent; now the company exercised an option to build up its stake by a further 14 percentage points, and managed to buy a further 9 per cent without alerting the market. In 1977 a full merger was engineered.

The company now had enormous surplus land resources at a time when the property market was poised to shoot ahead. So in recent years it has undertaken an extensive property development programme, selling off offices and apartments while retaining retail space to establish a rent roll which this year should produce profits in the region of HK$200m.

The company owns three container berths, half the total in Hong Kong, which is also producing healthy profits. Minority stakes in television, the Cross-Harbour Tunnel Company and Consolidated Hotels have produced good cash returns.

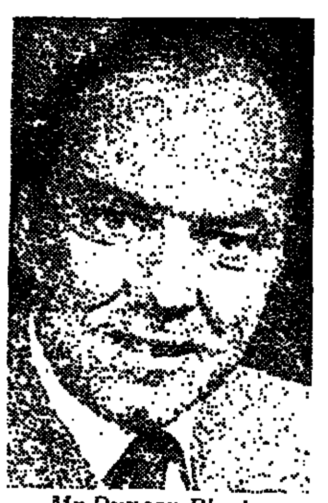
In the past couple of years the company has used its surplus cash to buy in minorities in its trading and retail division and in quarrying. This process has now been more or less completed and the balance sheet shows cash net of all debt of HK$135m, against shareholders' funds of HK$5.7bn.

A considerable development programme is now contemplated. On the property side the Hunghom Dockyard Redevelopment on the Kowloon peninsula may take 10 years. The company is also considering whether to make a further heavy investment in more container berths—at a possible cost of HK$1.5bn. It is aiming to expand its local retailing interests, in supermarkets and chemists. In spite of the ambitious scale of this programme, it could well be financed out of internally generated funds—depending on timing.

Meanwhile the stock has recently been one of the most buoyant on the market. Appreciation of the sound financial position and growth prospects has probably been a secondary cause. More important has probably been speculative interest over the possibility of a full takeover by Cheung Kong. Here there may be disappointment. The Takeover Code allows 5 per cent of a company to be bought each year. Cheung Kong could bump up its stake beyond 50 per cent within two years, without making a general offer to all shareholders.

SWIRE GROUP

# High capital gearing



Mr Duncan Bluck, chairman: lower property profits

By he standards of Jar Matheson and Huon Whampoa, the SwGroup is a newcomer to g Kong. The group bedeveloping its shipping acts in the East in the 18 It was not until the bng of the century that itTaoo dockyard on Hong g Island opened for ine.

The ivate parent company the Swire group, John re d Sons, is based in ndon. It has four main eratin arms, based in ndon, Tokyo, Hong Kong d Auslia. Of these the st imptant is Hong Kong, ich comprises about 55 per nt of th assets and profits the roup. Here the terests are controlled rough th quoted company wire Pacic, of which the arent hold nearly 48 per ent of the bting equity.

The 1940s lealt the group a savage blow. At the end of the Second World War more than half the group's ships were lost and the Hong Kong dockyard and sugar refinery were left in ruins. The Communist revolution meant the finish of the Chinese river and coastal trades and the loss of extensive properties on the mainland.

The initial work went on recreating the shipping and shipping-related businesses the group had traditionally been in. At the same time—in 1948—a controlling interest in the airline Cathay Pacific was bought. The next diversification took place in the early 1960s, when the company entered the bottling business.

In the 1970s the group began building up its offshore supply fleet, which is now one of the 10 largest in the world and operates in the Gulf, West Africa, India, Indonesia and Brunei. In Hong Kong, Swire obtained two of the six container berths developed in the New Territories, while more recently property has become an increasingly important element in total profits.

The group's Hong Kong land bank from the old dockyard days has given it a head start as a developer but it has been hamstrung by shortage of cash and so has tended to sell the bulk of its developments. Last year within property profits of HK$588m, only $92.3m derived from the rent roll.

This year, with the property market well down from its peak, "property profits will be lower" according to Mr Duncan Bluck, the chairman of Swire Pacific.

Meanwhile, capital gearing is fairly high, and last year there was a cash outflow of HK$1.3bn. In spite of a property revaluation, net debt last year moved up from 52 per cent of shareholders' funds to a little over 70 per cent. So last autumn, when unit sales at the group's big redevelopment at Taikoo Shing came to a virtual standstill, Swire was in no position to hold out, and cut its effective selling prices.





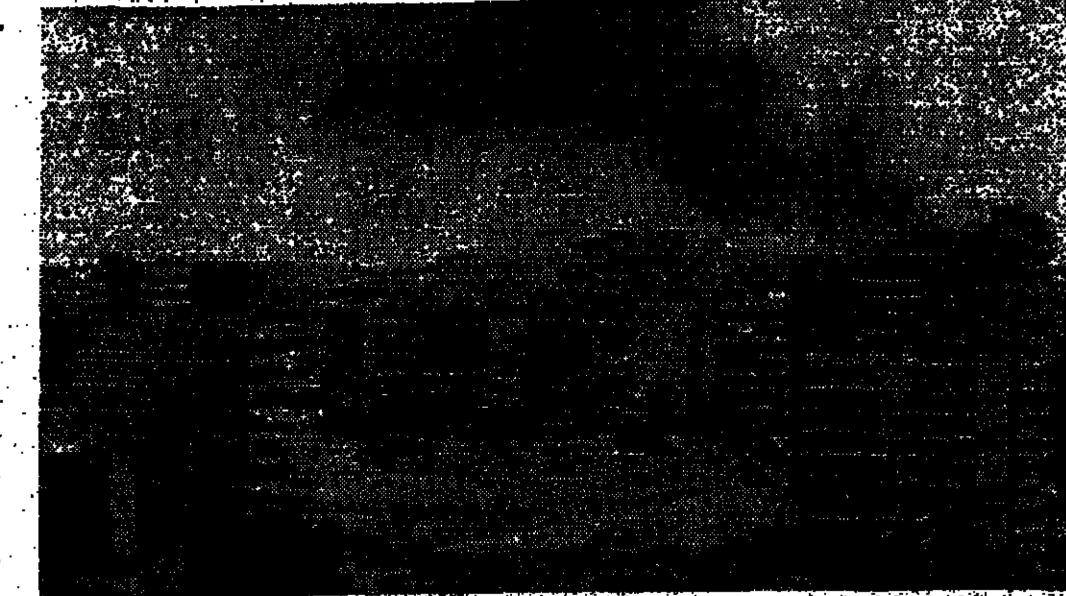
هكذا من الأصل

**PROPERTY**

| | Commercial space built (square metres) | Vacant at end-year (square metres) | Space taken up as% of total built |
|---|---|---|---|
| 1978 | 211,700 | 230,700 | 85 |
| 1979 | 227,200 | 263,500 | 66 |
| 1980 | 372,300 | 333,000 | 53 |
| 1981 | 314,500 | 422,300 | 57 |
| 1982† | 382,800 | | |

| | Office space built (square metres) | Vacant at end-year (square metres) | % taken up |
|---|---|---|---|
| 1978 | 185,400 | 131,000 | 158 |
| 1979 | 178,300 | 78,700 | 128 |
| 1980 | 296,700 | 202,900 | 42 |
| 1981 | 319,300 | 301,900 | 64 |
| 1982† | 485,100 | | |

† Estimated. Source: Hongkong and Shanghai Bank.



*Left: Nathan Road, where prime rents have reached HK$140 per sq ft. Above: view of the heart of Hong Kong's commercial district, looking towards Kowloon.*

**Michael Cassell** says the market is grappling with high interest rates
On the next two pages he looks at major groups and progress in housing

# Building boom comes to an end

"IN THIS market we expect five years fat and two years flat." It takes little insight to establish which particular phase in the cycle—spelled out by Mr Trevor Bedford, the managing director of Hongkong Land—the Hong Kong property market is now experiencing.

Years of "fat" there have certainly been, with property values quadrupling, rents escalating and new development reaching a pace which few other real estate markets have ever managed to achieve. For the time being, the "flat" phase is very much in evidence and may well be for a longer period than Mr Bedford is prepared to envisage.

The seeds of the latest boom were sown in 1976 when confidence began to return to the local property market, after the two-year standstill which came in the wake of the stock market collapse. There were growing signs that demand for floorspace in all sectors was rapidly moving ahead of supply and by 1978 activity had been stepped up sharply.

Much of the fresh wave of development was supported by a huge influx of money from the rest of South East Asia—there are no restrictions on the inflow and outflow of funds—and it was the residential sector, which forms an integral part of the property development and investment market in Hong Kong, which led the way.

It was the residential sector which proved the most active hunting ground for the speculators who funded new developments and then bought and sold them as prices raced ahead, establishing what in effect became a "futures" market in apartments.

But if the signs of a change in the economic climate were growing, many speculators preferred to ignore them until it was too late. In 1980, when the new era of high interest rates finally arrived, the residential pipeline was bursting with new units and developers were

**There has been a huge reversal in residential property values, with 30 per cent falls in some places.**

taking delivery of apartments for which buyers, frightened off by totally unjustified prices and high interest rates, were suddenly absent.

The net result has been a huge reversal in residential property values, with falls of up to 30 per cent being recorded in parts of the colony. At its peak in 1981, the market saw some prestige developments being sold at prices over HK$3,000 per sq ft but now prices of good quality apartments on the island range from around HK$200-700 per sq ft, while well-located garden-house schemes command prices of over HK$2,000 per sq ft.

Rental levels for high quality developments range from about HK$8 to HK$15 per cent sq ft per month and there is good demand for residential accommodation at rents of up to HK$50,000 per month. The pattern is patchy, however, and asking rents for some of the most attractive island locations bear little relationship to what the tenant actually has to pay.

Many vendors are outwardly maintaining their prices but reducing them via the availability of special packages. The general view is, however, that the market will not show real signs of revival until interest rates begin to fall.

It is a view which can be equally well extended to other sectors of the local property market, where surpluses of space and generally slack demand have created what amounts to a glut of accommodation.

In the retail sector, another target of the army of speculators who were able to take advantage of strata-title laws which permit fragmented ownership of buildings, the recent high level of activity has left a large oversupply of new space.

Although last year's supply was about 12 per cent below original forecasts, the total volume of new retail space available increased at its fastest rate for some years. Over 3m sq ft of space was built during the year and the figure is set to rise to about 4m sq ft in each of the next three years, leading to a 25 per cent increase on total stock recorded at the end of 1981.

This year alone, there will be over 8m sq ft of retail floorspace available for occupation, over three times the highest annual take-up recorded since 1977. Last year, the amount of retail space newly occupied accounted for less than 60 per cent of all new floorspace built.

The problems of the retail sector are not, however, confined to the question of simple over supply. By permitting full coverage of any site for the first 50 ft in height, Hong Kong's development control laws have encouraged the building of office towers above retail podiums. During the recent boom, many such podiums were sold off the plans to numerous speculators who took units of 200 sq ft and upwards.

Multi-ownership of this kind has made control of trade-mix, design and fitting out virtually impossible and as, in many cases, the prices bore little relation to the rent-paying ability of the tenants, several major schemes have now become blighted.

The completion of at least ten prominent podium shopping complexes over the last year has added to the problems of oversupply and the end result is that tenants are paying much closer attention not only to the location of available floorspace but to the quality of the management of particular developments.

Although the retail market is generally sluggish, there remain bright spots. Among the most impressive of these is Tsimshatsui, an impressive retailing centre across the harbour in Kowloon which has become the natural magnet for tourists. A combination of air-conditioned, multi-story shopping malls—such as Harbour City—and more traditional shopping streets provides unlimited choice in consumer goods and some excellent real estate investments.

Prime rents in locations like Nathan Road have been reaching HK$140 per sq ft a month while rents for top quality space in Central District shopping centres are closer to half that level.

In the office sector, a fairly buoyant takeup position has not managed to stem the growing tide of surplus floorspace. The principal office locations are in the central business district, Wanchai and Tsimshatsui and the oversupply is being felt by them all, although Central can expect continuing strong demand for whatever prime space becomes available.

Government figures indicate that there will be another substantial increase in new supply of office space in the next three years. Last year, over 3m sq ft was built, a figure which will be nearer 5m sq ft this year. Similar supplies are forecast for both 1983 and 1984, a performance which will add over 15m sq ft (nearly 60 per cent) to the stock of such space recorded at the end of 1981.

Last year, take-up in the office sector reached over 2m sq ft but over 3m sq ft remained vacant, an increase of nearly 50 per cent over the year as a whole.

The figures are global and some sections of the office market will continue to perform better than others. But as the supply increases over the next three years it seems likely that a greater proportion of vacancies will relate to space in the lower grades.

At the same time, however, high rents and prices for centrally located offices are encouraging tenants and owner-occupiers to examine alternative locations. In 1979, two-thirds of all office space was built in the Central/Causeway Bay area but the proportion of new development in this area is now down to around one-third, a figure which reflects the growing difficulty of finding new development opportunities but which also mirrors the growing trends towards greater geographical distribution of office accommodation.

A larger proportion of office developments is being offered for sale. Last year, about 60 per cent of all newly completed schemes were either pre-sold or made available for sale, compared with only 25 per cent just four years ago, another reflection of the occupier's determination to avoid high rentals and share in the uplift in capital values.

The same pattern of surplus and slow demand is repeated in the industrial property market, where the recession in manufacturing activity has taken its toll. Hong Kong has a total

**Several of the major developers believe that the market will remain fairly stable for up to five years.**

stock of about 150m sq ft of industrial floorspace, about three-quarters of which is used by manufacturers and most of which is in the form of flatted factories, fully utilising the expensive land which is available.

In 1981, more than 11m sq ft of new space was completed and a slightly lower total is forecast for this year. There are suggestions that the figure could rise again, however, to nearer 18m sq ft during 1983 and over 20m sq ft in the following year. Whether or not this volume of space actually materialises remains to be seen, but there are already clear signs that developers are curtailing their original programmes. Average take-up between 1977 and 1981 has been running at under 10m sq ft a year.

The most obvious weaknesses in the industrial sector have emerged in the New Territories, where the majority of new development work has been concentrated. Most affected have been locations like Tuen Mun, Kwai Chung-Tsuen Wan and Shatin. Rents in these and other parts of the market are anything up to 25 per cent below the peak obtained in 1981.

Industrial land prices have also been affected and in some locations, such as parts of Kowloon Bay, the Government cannot sell industrial land at asking prices as much as two-thirds down on the peak. The prospects for recovery may well favour places like Kwai Chung and Tsuen Wan, with their Mass Transit Railway connections, at the expense of locations like Shatin, which is still having a job in attracting new businesses.

Small wonder that the government is finding it increasingly hard to fulfil the volume of land sales—and badly needed revenue—that it has needed. For years, it has been criticised for keeping its land release programme to a bare minimum, though it believed it was injecting as much as it could reasonably be expected to provide.

But more recently the volume of land being made available for all types of development has been stepped up, only to find that there are few, if any, takers in the market. From a point at which developers were asking for phased payment of land acquisition—such were the costs involved—there have now been complaints from competitive bidders that delays in payment on the part of some purchasers have enabled them to take advantage of the falling market and pay less than was originally agreed.

It is the extent of the widespread oversupply of space and difficult financial environment which gives rise to doubts about the local property market's ability to resume its forward march quite as quickly as some would like to believe.

Several of the major developers believe that the market will remain fairly stable for anything up to five years, though they are all convinced that the next hectic bout of activity is simply a matter of when and not if. While the market position may provide little solace for those developers who over-extended themselves at the peak of the market, the long-term oportunities remain undeniably immense.

It is, of course, the longer-term future of Hong Kong and its relationship with China which overshadows all other considerations, though for the time being its effect on the course of the commercial property market is not at all apparent.

The question of the 1997 lease on the New Territories remains a topic for conversation rather than a deadline requiring positive action. So far at least, the market has shown no inclination to differentiate—for political reasons—between the island itself and the New Territories.

But sooner, rather than later, the property market will have to begin taking the political outlook into its considerations. To end where we started, with the words of Trevor Bedford: "Hong Kong is all about confidence and there is a realisation on all sides that something will have to be sorted out. For the time being, the uncertainty is of little consequence but, by the end of the decade we must be far more certain about what lies ahead."

# Blue chip company scorns its complacency critics

An aerial view of Hong Kong with Connaught 1 dominating

HONGKONG LAND is one of the world's largest property companies and as such inevitably attracts its fair share of criticism as well as praise.

The critics believe that any company of Hongkong Land's size must generate a comfortable complacency and they see it as an organisation which has transcended the realms of vulnerability which keeps most companies on their toes.

As one put it: "The Land Company has the power to decide what location constitutes prime merely by deciding whether or not to be there. It can set rents by boardroom decisions rather than by taking account of the state of the lettings market."

Such observations receive scant treatment at the hands of Hongkong Land, which accepts it represents the blue chip investment in Hong Kong, which undoubtedly develops and owns the best buildings and which, without question, has enormous financial resources and an excellent track record.

Any suggestion of complacency, however, meets with predictable scorn and it is, indeed, hard to justify after a look at the present scale of its ambitious development programme and a taste of the enthusiasm with which it conducts its business.

The Hongkong Land diary of events for the last 18 months contains some impressive entries. It started work on the 600,000 sq ft Edinburgh Tower, a vital component in its massive Landmark Centre in Central district, took a 35 per cent stake in the HK$2.8bn Miramar Hotel site purchase, acquired stakes in Hong Kong Telephone and Hong Kong Electric and paid HK$4.75bn for the last remaining prime chunk of development land in Central.

The group has never been slow in acquiring property interests which can enhance the value of existing investments and the purchase of the so-called Connaught II site is just such a case.

A three-tower office scheme providing about 1.28m sq ft of lettable floorspace is to be developed alongside Land's existing Connaught I office complex and the two schemes are to be brought together and re-christened Exchange Square. The Connaught I tower is to be reclad externally.

### HONGKONG LAND

On a smaller scale, the group has recently paid HK$500m for the Bank of Canton building in Des Voeux Road, which it will redevelop along with a site it already owns on the same block.

The extent of the group's influence on the local property market is underlined in figures which show that about 2¼m sq ft of the 4¾m sq ft of prime floorspace due to come on to the Central Market through a series of major development schemes between now and 1987 will belong to Hongkong Land. Its prime portfolio in this area alone will then total over 5m sq ft of lettable accommodation.

The group accepts that the local property market is now experiencing a more difficult phase in its volatile history but firmly believes that its long-standing policy of concentrating on prime locations, first class properties and the highest standards of professional management will ensure sustained demand for its properties.

Present trends could, in fact, provide the group with a positive advantage as tenants have the benefits of good property and good landlords driven home to them by the *misfortunes of others*. A minimal vacancy rate would, so far at least, appear to bear out that conviction.

Hongkong Land also makes considerable capital from the fact that, given the recent sharp increases in rental levels, around half of its portfolio is let at levels well below current market rentals, implying a substantial upturn in earnings once reviews—three years is the norm—come through.

Hongkong Land has close and long-established ties with another Hong Kong corporate giant, Jardine Matheson, an arrangement which took a major step forward towards the end of 1980 when the two groups established 40 per cent cross-holdings in each other's operations.

It is an arrangement which has come in for some criticism, with the move clearly designed to prevent third-party bids but arguably providing few other tangible benefits. Hongkong Land remains principally a property development and investment operation, though its empire now extends to the ownership of food, trading and distribution, hotels and public utilities.

The group's profit record is *no less* impressive than its stock of prime floorspace. In 1981, it recorded consolidated net profits of HK$1.43bn, up no less than 134 per cent from 1980. Total assets exceed HK$26bn and its interests extend to 13 countries in the region.

As far as development activity in Hong Kong is concerned, the cost and scale of projects—together with the shortage of land—makes it likely that joint venture partnerships will continue to represent a major option for the group. Last year, Hongkong Land entered into a further nine such arrangements, bringing the total in the colony to over 30 and involving the provision of more than 10m sq ft of floorspace.

Hongkong Land sees its principal attributes as recurring quality earnings from a top quality portfolio (in marked contrast to some troubled companies whose earnings have been predicated almost totally on trading activities, the group's trading operations currently provide about 30 per cent of profits) and the resources and experience to tackle any development challenge worth taking on. With more than 60 development projects at varying stages of completion, the strains are showing through and the group now admits to be stretched managerially.

Hongkong Land remains a fundamentally Hong Kong-based group, with 90 per cent of its assets and profits related to the colony, but it has also embarked on further overseas activity and is concentrating its efforts in Australia, Singapore and North America.

Although it is not revealing too many details yet, the group has characteristically big plans for Denver and possibly Houston and Vancouver. The Denver joint venture should be announced soon.

# Medium-term future depends on MTR deals

THE NAME of Hang Lung, a property development and investment company started up by two brothers in the early 1960s, has recently threatened to dominate the Hong Kong property scene.

Hang Lung's emergence as the leading partner in three separate consortia appointed to carry out all nine of the Mass Transit Railway Island Line station contracts so far awarded has been the centre of much interest and not a little controversy.

Eyebrows have been raised over the group's financial stamina in respect of the massive capital commitment involved in the Island Line scheme. There have also been rival mutterings about the outcome of negotiations over land premiums between the MTR authority and the government, which have gone in Hang Lung's favour.

Hang Lung is undeterred, highly delighted with its coup and determined to convert its tendering success into one of Hong Kong's more outstanding speculative ventures.

It began life determined to build up a healthy source of recurring income, which it had succeeded in doing by the time it went public in 1973. But in gaining this objective its results suffered at a time when many competitors were concentrating on development and trading.

The group took a long hard look at a large land bank, held at historic costs, and began to take a much closer interest in developer-trading activities.

By the time the MTR contracts came along, Hang Lung was in the market for large-scale developments, as witnessed by its extensive residential development programme and the present construction of the Argyle Centre Tower I in Mongkok, originally intended as an investment but in which all the office space has been pre-sold.

About 20 per cent of the retail floor space has also found

A proposed development by Hang Lung at Kornhill

### HANG LUNG

buyers. Most of the group's 1982 profits—they could rise to HK$ 550m against HK$221m in 1981—are expected to come from these transactions. Hang Lung is also involved in the development of Argyle Centre Tower II, due to be completed next year.

But it is the MTR contracts on which the group's medium-term future hangs and there have been fears over its extensive commitments at a time when the property market is having a rough ride and the group's borrowings have risen sharply to more than HK$ 1bn, over 1½ times shareholders' funds.

But Hang Lung is by now used to the arguments and is well prepared with the answers. It points out that although the total costs of construction and land premiums are expected to reach a massive HK$ 10bn, its own share of costs will only reach around one-third of that figure.

Development of the Island line sites begins in earnest next year, but the group emphasises that the construction periods will not be concurrent and it describes the programme as "a comfortable seven-year commitment."

There is also the prospect that with property values weakening, some of the land premiums payable to the government and now under negotiation could be lower than the figures originally built into costings, to the benefit of Hang Lung. In one case, this has already happened. Another six station sites have yet to go out to tender and Hang Lung may be back for more.

The group is looking for a sizeable cash flow from existing development projects over the next 18 months to two years to help it to finance the MTR programme. It is also well aware that its existing land bank will be substantially developed in the next three years and its new commitment to the Island Line will extend its work programme into the late 1980s, making it one of the few Hong Kong property companies with any clear development plans beyond 1984.

As for the prospects for the resulting mixed developments, Hang Lung is confident of their success. It believes that the gradual transfer of passenger traffic away from the congested roads to the MTR system will ensure that scheme will be viable.

Hang Lung intends with its consortium partners, to sell off the completed developments, although it is not discounting the possibility that it may itself end up by purchasing some of them for inclusion in its investment portfolio.

Elsewhere, the group is participating in a number of commercial and residential developments in Kowloon and Hong Kong Island and also in a few smaller industrial projects. Total floor area under or pending construction now exceeds 8m sq ft.

The group's controlling interest in Amoy Canning, whose main attraction lies in its property assets and a plan to move its food canning activities to the New Territories, should provide further scope for developments in Kowloon.

Although Hang Lung's rental income will provide a decreasing proportion of total earnings over the next few years as development profits come in—they could be as high as HK$ 1.5bn from the Island Line contracts—it has built up and intends to maintain a high quality rental portfolio.

This portfolio now covers well over 1m sq ft and substantial income growth is expected.

# Giant strides still leave a long way to go

DESPITE THE ambitious and long-running programme aimed at overcoming Hong Kong's greatest single social challenge —the provision of decent housing for its 5½m inhabitants—it is clear that the problem is far from being solved.

Ten years of concerted effort to house Hong Kong's people in a style appropriate to one of the world's most dynamic and promising economies show giant strides along the road towards that objective. The scale of achievements cannot be overlooked or minimised but the task which remains is nevertheless immense.

Despite the high output of new flats in both the private and public sectors, much remains to be done. Estimates suggest that, at the end of 1981, there were still more than 163,000 families on waiting lists while 750,000 people are forced to call a squatters' hut their only home.

There are critics who suggest that, under former governor Sir Murray MacLehose, housing became all-important to the detriment of other aspects of the colony's development, but his dedication seems justified by the enormity of the problem.

To Sir Murray, the desire to provide homes for millions in one of the world's most densely populated places became an overriding objective, no doubt regularly reinforced by the plight of refugees whose only choice was and still is to squat in shanty areas which regularly fall victim to devastating fires or landslides.

Hong Kong was for several years after the last war the unwitting recipient of an immense influx of Chinese immigrants who had nowhere to live and who placed intolerable pressures on a housing stock which was outdated and hopelessly inadequate.

In the wake of the now infamous Christmas Day fire in 1953, which left 50,000 squatters homeless, the colony launched its public housing programme. Within little more than a month, the authorities had built emergency housing for 35,000 of the victims and the same sense of urgency adopted then has remained with the housing development programme until the present day.

It was in 1972 that Sir Murray announced a 10-year public housing programme aimed at breaking the back of the problem and, since then, more than 30 estates—all of them self-contained communities — have been added to the 68 which were built in the years before the latest initiative began.

Now, more than 2¼m people, or about 44 per cent of the population, live in public housing provided or subsidised by the Government.

Under the guidance and control of the Hong Kong Housing Authority, the government housing programme aims at producing 180,00 flats for rent and for sale over the next five years. It is now actively encouraging its own home ownership scheme which enables lower-income families to buy their own flats at reasonable prices.

Public housing tenants prepared to surrender their low-rent flats and families living in the private sector but on low incomes have a chance to ballot for such owner-occupied accommodation. A 10 per cent down payment is required. 15-year mortgages are granted and the buyer must give first right of repurchase to the authority within the first 10 years.

The scheme has already provided cost-price (there is no land charge) homes for over 15,000 families and a further

### HOUSING

45,000 residential units are planned for the current decade. Plans are also under way to provide a similar choice for middle-income families.

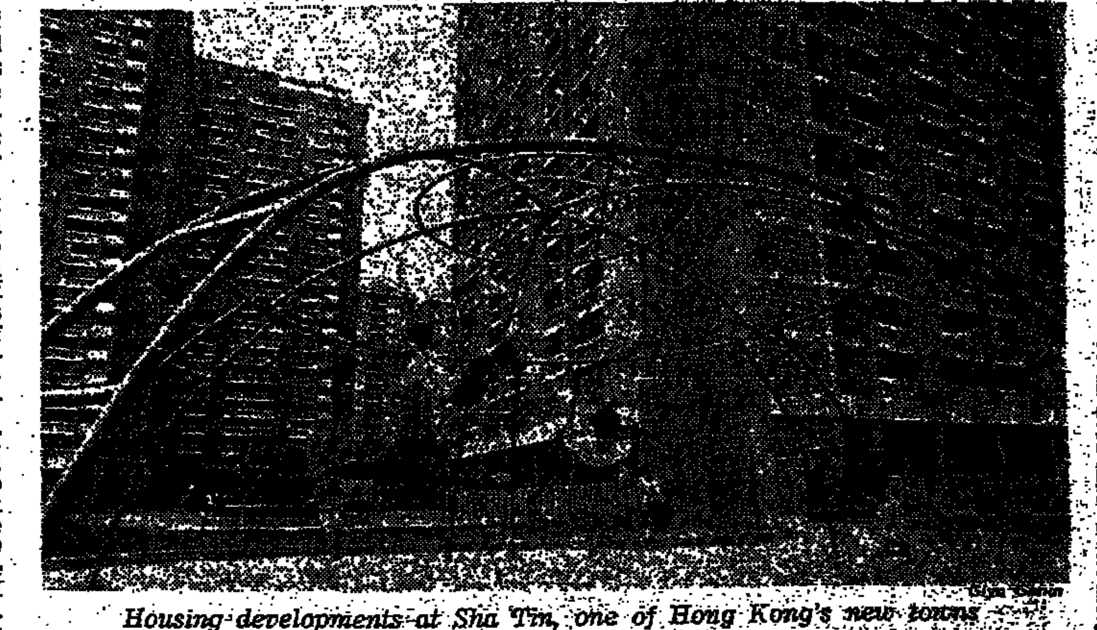
Flats built under the scheme —ranging in size from 35 square metres to 65 square metres—are claimed to be up to the standard of good private developments. The income limit for eligible applicants is now HK$6,500 and prices range from HK$170,000 to HK$375,000.

Public sector rentals for new accommodation now generally account for between 10-15 per cent of average household income and a single room apartment would now involve a monthly payment of around HK$300. Housing authority rents represent between one quarter and one third of market rentals.

To the outside observer, the scale and density of the new generation of housing estates represents everything that town planners and architects in many other countries have been trying to avoid for years, though few of them have the constraints experienced by their counterparts in Hong Kong.

Strings of skyscraper blocks offering variations on a repetitive theme, efficient but depressingly uniform, appear daunting and are arguably the result of a compromise aimed at providing desperately needed residential accommodation within a tight budget and a tighter timescale.

For the tenant, however, the end result usually represents such a major improvement over previous accommodation that the "compromise" is totally acceptable.



*Housing developments at Sha Tin, one of Hong Kong's new towns*

Such is the demand for flats that waiting lists for accommodation on Hong Kong island stretch to 10 or 15 years, those in Kowloon to seven or eight years while it can be up to four years in less centrally located areas. To qualify even for entry on the list, a family must comprise at least three people.

While 30 per cent of the Housing Authority's homes go to those on waiting lists, 25 per cent are allocated to squatters whose huts are pulled down for urban development and another 25 per cent go to people from old housing blocks. The remainder are reserved for special needs, such as the elderly and the disabled.

With much of the potential for residential development on the island and in Kowloon now used up, the emphasis has now swung heavily in favour of the New Territories, where virgin land enables individual estates to be built as complete communities, with a full renage of social, educational and recreational facilities. For the time being, however, the emphasis has been on housing while other community facilities have been lagging behind.

Huge areas of the New Territories are not yet inhabited at all but development activity in several selected locations is racing ahead.

Completely self-contained new towns are being developed at Tuen Mun, Sha Tin and Tsuen Wan, the last of which has a planned population of about 1m against the present 500,000. Tuen Mun already houses 150,000 and with 300 people a day moving into new homes the population target is just over 500,000. In Sha Tin, with 200,000 residents already housed, the planned population of around 500,000 has been expanded to a proposed 800,000.

There is, in addition, a plan for a new town at Junk Bay, which could house 300,000 people (its future may depend on the possible extension of the Mass Transit Railway system) while a second generation of smaller new towns are taking shape at Tai Po, Yuen Long and Fan Ling.

In some locations, there is interest from the private sector in helping to provide a blend of housing tenures. Given the difficulties of the private housing market, however, large numbers of newly developed flats are not selling and the added vulnerability of poorly located properties in the New Territories could slow down further private sector participation.

The private sector has an important role to play in Hong Kong's overall housing scene. Government figures show that the stock of permanent domestic accommodation at the end of 1981 stood at just under 1m units, comprising 485,000 in the public sector and 509,000 in the private sector. In 1981 the private sector provided nearly 35,000 new homes, almost exactly half of the total for the year. About 55,000 units are expected to be completed in 1982 and 1983, with a further 25,000 planned for 1984.

Last year was another busy year for private housing development, despite high interest rates and falling sales. Large numbers of new flats arrived on the market, for which takers were few, certainly at rentals which were necessary for the developer but totally out of line with what the market was prepared to accept. The net result has been a big fall in private residential values and rents, though these have invariably been disguised through special offers which outwardly maintain asking prices.

The private housing sector has its own acute problems and previous scarcities of reasonable accommodation have forced up prices and rents to levels which rank among the most expensive in the world. Rental levels on the island range up to around HK$15 per sq ft per month and good residential accommodation can still command rents of HK$50,000 a month and more. As for town house accommodation, asking rents can reach the dizzy heights of HK$80,000 per month, though recent events have made deals at this level an exception.

# Family wealth buttresses major development group

FLAIR AND FINANCIAL backing tend to go down well in Hong Kong and Carrian Investments seems to have its fair share of both. Carrian's worldwide interests have been rapidly extending into tourism, shipping and insurance but its ambitious involvement in the commercial property market has until now created most interest.

Carrian emerged on to the centre of Hong Kong's corporate stage in 1980 when it made a generous offer for a controlling stake in Mai Hon Enterprises (net assets HK$181m), a small property subsidiary of Stelux Manufacturing. Carrian Investments represents the major quoted vehicle of the Carrian group and its parent company is Carrian Holdings, in turn a wholly-owned subsidiary of Carrian Nominee.

The source of Carrian's financial strength—consolidated net assets at the end of 1982 were HK$3.37bn — has created as much interest as its rapid expansion and diversification and although the group is slowly opening up to outside scrutiny, it remains protective about the source of the immense resources at its disposal.

It is known, however, that ultimate ownership of the group lies with four families in Malaysia and Singapore, one member of whom is Mr George Tan, the group chairman.

Wherever the money comes from, Carrian is intent upon continuing to inject cash into the organisation as it pursues a diversification policy aimed at broadening its assets and earnings base.

*On the property front,* Carrian has been a very active participant in the local and international marketplace. Although its purchase in 1980 of Gammon House for HK$998m and the subsequent resale eight months later for HK$1.65bn remains the subject of considerable debate and acclaim, Carrian's involvement in property since has not represented anything of an anti-climax.

The group has joined with Hongkong Land to redevelop

### CARRIAN INVESTMENTS

the old wing of Miramar Hotel on Kowloon's "golden mile". The site was bought for a record HK$2.8bn, mainly on deferred terms, and overall Carrian has a 48 per cent stake in the 1.1m sq ft office and retail scheme which should be completed in 1985 and which could generate total profits of up to HK$1bn.

The group's involvement with Hongkong Land spreads to other projects and while the arrangement is clearly based on sound commercial principles, the tie-up will do nothing but help Carrian establish itself as a heavyweight to be reckoned with.

George Tan says that Carrian —as at May—had no fewer than 36 development projects underway around the world, involving both investment and trading properties. In Hong Kong, the group has nearly 3m sq ft of land at the planning stage, nearly 600,000 sq ft in the course of development and over 700,000 sq ft of developed space which is now, or will shortly, be producting rental income. In addition, there is 634,000 sq ft of agricultural land in the New Territories.

Mr Tan emphasises that its property interests represent cash investments and that the group, therefore, can afford a flexible approach towards the timing of its development programme.

He admits that the recent hectic pace on the property front may be slowing, for the time being at least: "You cannot continue to eat things up as we have without stopping, occasionally to digest what you have consumed. But we will still be anxious to take advantage of the weaker property market in Hong Kong in searching for good acquisitions."

Carrian's property interests, like those of most other commercial property concerns in Hong Kong, also extends to the residential sector, including several residential units and an interest in the former Hongkong Land luxury apartment development in Midlevels, known as Tregunter.

The group's property involvement is not being confined to Hong Kong and it has ambitious plans for the U.S., where development projects are already underway. In Oakland, California, Carrian Investments has just bought out the remaining 51 per cent interest held by its parent in Asian Holdings, a company developing a 1.6 acre city office and retail site which will provide 378,000 sq ft of floorspace. Completion is due later this year.

The second phase involves the construction of an office tower comprising 2.3m sq ft. Building work should begin this year with completion scheduled for 1985. Rental income is currently estimated at U.S.$60m a year.

In Orlando, Florida, Carrian has purchased an interest in an 810-acre site adjacent to Walt Disney World. Negotiations are underway to sell 70 acres of the land for U.S.$17m, which would result in the cost of the land and infrastructure being recovered and leaving the remaining acreage at no cost to the developers.

Elsewhere, Carrian has interests in development projects in Los Angeles, California, the Philippines, Singapore, Australia, New Zealand and Japan.

The emphasis is on buildings on prime sites and Carrian shows a marked inclination towards a joint venture approach, preferably with a controlling interest. Because most of its schemes will be new, however, the potential for income growth in the first few years will be limited, although this should then begin to improve.

The establishment and continual maniturring of a sound investment portfolio, providing recurring income, will remain a major priority. Property trading looks set to contribute a substantial proportion of profits and Carrian is expected to maintain its tradition for the spectacular.

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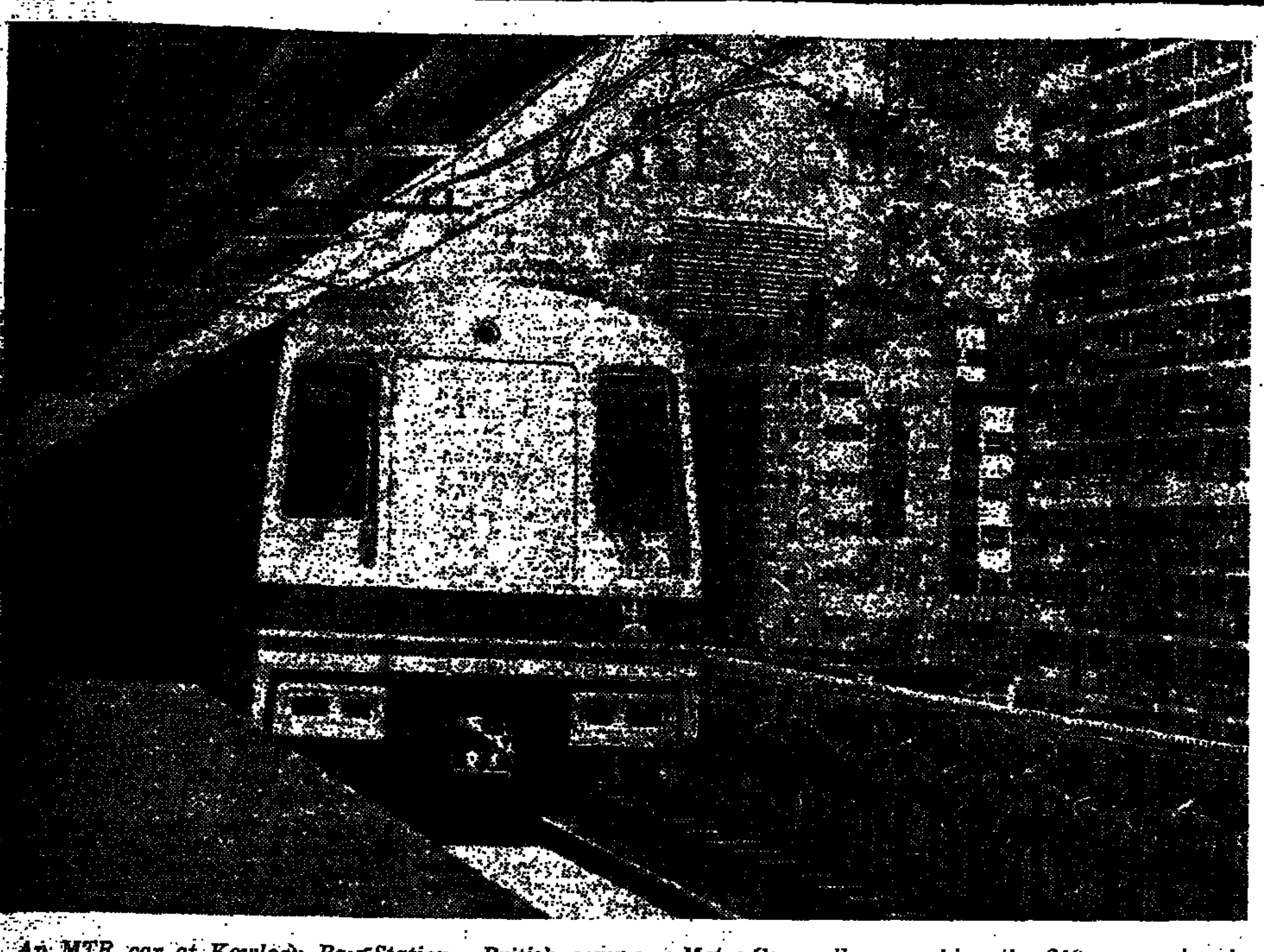
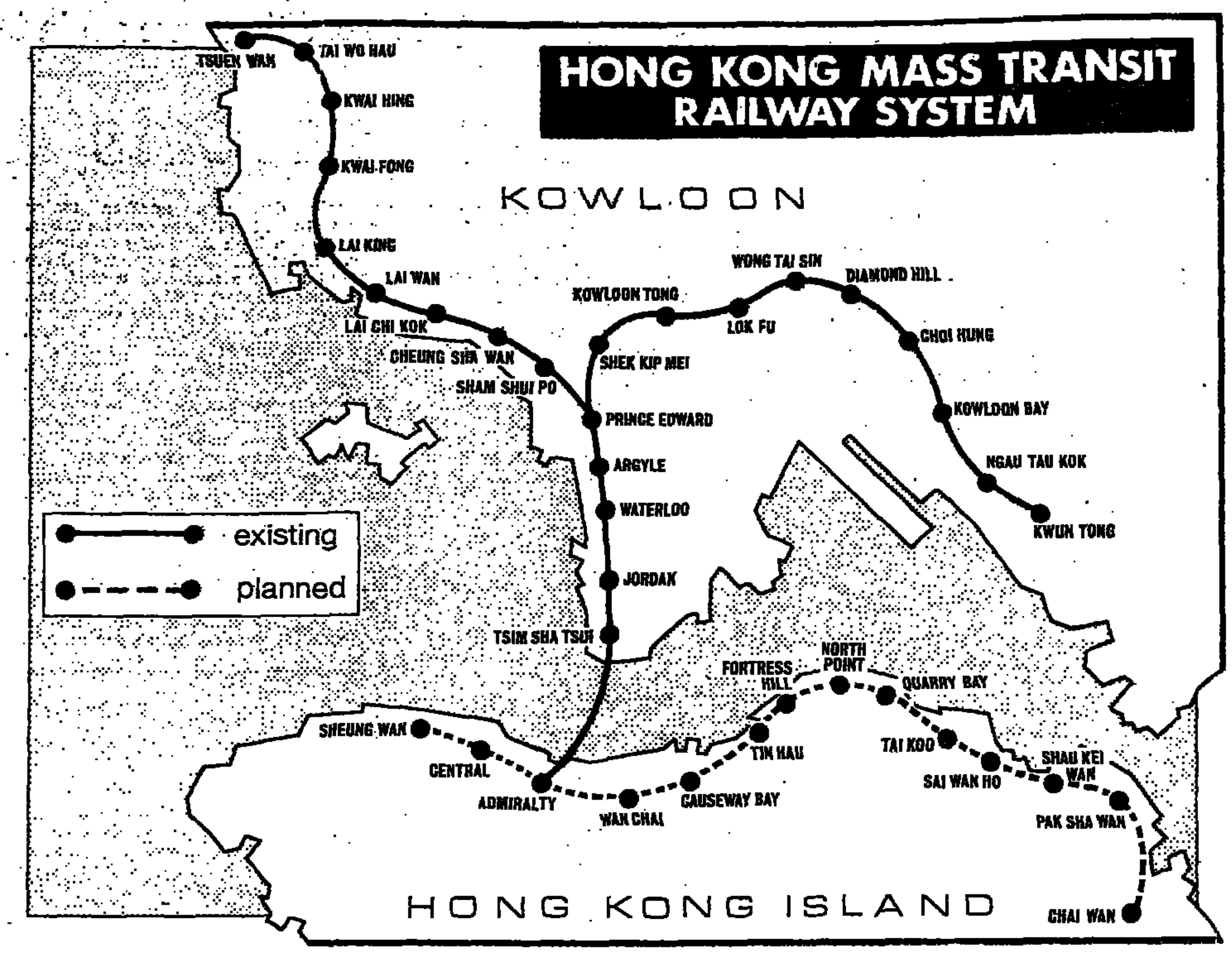


*An MTR car at Kowloon Bay Station. British company Metro-Cammell are making the 210 cars ordered*




# Solace for commuters in an advanced transport system

**MASS TRANSIT RAILWAY**

MICHAEL CASSELL

WITH ROADS in the heart of Hong Kong almost permanently paralysed by bumper to bumper queues, turning potentially short journeys into tiresome marathons, the present development of the Mass Transit Railway system cannot have come a moment too soon.

Hong Kong is choked by traffic and the semi-permanent congestion provides an ironic contrast to the pace which the remainder of the colony's activities manages to maintain.

Even more disturbing, however, is the realisation that such inbuilt chaos arises at a time when fewer than 20 per cent of households have use of a private vehicle. The 700 km of roads on the island and in Kowloon are already incapable of coping with vehicle flows for much of the day and the position continues to deteriorate, despite a 1981 budget for new road schemes, improvements and maintenance of HK$ 737m.

Recent proposals announced by the Transport Secretary to triple annual licence fees, double registration taxes and raise duty on light oils by 40 per cent are a measure of the concern which the traffic problem now arouses, though their longer-term impact on the position is questionable.

It is against this background that the Mass Transit System—not universally welcomed in Hong Kong — is now being developed at a rate which underlines the urgency of the local transportation crisis. The first section of the system, which has 15 stations and links the east Kowloon area by a harbour tunnel to central district on Hong Kong Island, started full operation in February 1980 and the arrival of the Modified Initial System (MIS) has had a significant impact on the lives of many commuters.

During 1981, the MIS carried over 223m passengers, more than—for example—the comparable system which has operated in Sao Paulo, Brazil, for six years.

The growth in passenger traffic has built up steadily and by the end of last year had risen above 700,000 a day. Although the continued increase in numbers is regarded as satisfactory by the Mass Transit Railway Corporation, which in December completed its first fully operational financial year there is some disappointment that traffic carried has fallen short of the original theoretical projection of 1m passengers daily.

The corporation accepts that part of the shortfall may be attributable to some undue over-optimism in the early stages but it is equally well aware that competition from buses on routes which parallel the railway has been intense.

The supply of bus feeder services in particular has been lower than expected and the corporation is now saying that if the bus companies cannot or will not provide the necessary supporting services, then it will have no alternative but to help itself.

The expansion of the transit system reached a milestone in May, with the opening of its second leg, a 10.5 km line which runs from the north west New Territories at Tsuen Wan down to the existing MIS network. The extension was not due for completion until December 1982 but construction progress went well and enabled the opening to take place six months ahead of schedule and within the projected budget of HK$4.1bn.

Addition of the new line, with nine additional stations, is expected to take the MTR over the 1m passengers a day level, attracting an initial 400,000 passengers and rising to twice that level in the longer-term.

Construction has now also started on the Island Line, which will run along the island's northern waterfront from Chai Wan to Sheung Wan. The line is due to open in 1985-86 and is being developed at a projected cost of HK$11bn.

The corporation's equity backing comes from the Government—its current stake stands at nearly HK$5bn—but it is also deriving a significant proportion of the required funding through joint venture interests with property developers who are developing commercial sites over the Island Line stations.

Developers tender for the work, provide the necessary funding and an MTR station as an integral part of the development, and then share in any arising profits with the corporation. The corporation says its conservative estimate is that the development partnerships will yield profits equal to somewhere around 40 per cent of the Island Line's construction costs. Funding will also come in the form of export credit finance from the UK, France and Japan, at fixed rates of interest.

So far, nine of the Island Line station site contracts have been awarded, with five left outstanding. Agreements signed in 1981 will provide about 4½m sq ft of office and commercial floorspace and over 8,000 residential apartments. The developments will come on to the market between 1984 and 1988, with the exception of Cotton Tree House in Central —a 225,000 sq ft gross office and shopping complex—which will be completed later this year.

The fact that all the contracts let to date have gone to consortia headed by Hang Lung, one of Hong Kong's largest development groups, has been something of a local talking point, not least among competing developers who have claimed that Hang Lung has encountered some very favourable contractual conditions when it comes to meeting its extensive commitments.

In particular, the corporation lodged an appeal against the premiums which are payable to the Government as freeholder for the development of the two sites, which mean the premium payments were delayed. In one case, the premium has been reduced in the face of weakening property values, although the corporation emphasises that its actions have been correct throughout and that they bestowed no unfair advantage on the consortia leader.

As for the corporation's future, the recent additional injection of Government cash (Government guarantees for MTR debt will rise from just under HK$ 4bn this year to HK$ 6.8bn in 1986) has helped reduce its loan-equity gearing ratio from 8:1 to 2:1.

In 1981, the corporation showed a HK$ 491m net loss, marginally down on the previous figure and it says that steady progress is being made towards the longer-term requirements of making the railway self-sufficient in financial terms. In recent months the MIS has been making a cash surplus after charging all cash outgoings including loan interest but the opening of the Tsuen Wan extension and the substantial increases in related expenditure will have reversed that position.

A return to cash surplus is, however, projected towards the end of 1983, although interest rates will have a significant bearing on the outcome.

The corporation believes, however, that there is every likelihood that the combined first two stages of the railway network will achieve profitability before the Island Line opens in 1985.

A ride on the MTR makes such ambitions seem entirely reasonable. The railway—rolling stock courtesy of Metro-Cammell—is clean and fast and fares are relatively low. Many passengers use stored value tickets, which the corporation says are attractive because of their inherent convenience and flexibility.

The trouble is that plastic tickets are also literally flexible and it did not take the corporation long to find out that a train full of passengers all flicking them between their fingers not only damaged the ticket but created a fearful din. A HK$1,000 fine for "offenders" was quickly introduced and the clicking stopped.

Being small helps the economy because there are no industrial dinosaurs such as steel plants, says **Robert Cottrell**

# Exports and re-exports provide the driving force

Trade and Industry are inseparable concepts in Hong Kong, a city which lives on its exports and re-exports. Cash flows in and out of the country each year amounting to several times gross domestic product, while some 90 per cent of domestic manufacturing is for export.

Hong Kong's total exports have increased by almost 200 per cent in real terms over the past decade. Last year they totalled HK$122.1bn, comprising domestic exports of HK$80.4bn and re-exports of HK$41.7bn. Imports totalled HK$138.4bn.

Japan and China each supplied just over 20 per cent of those imports, while the United States was by far the largest market for domestic exports, taking over 36 per cent, followed by Britain with 9.6 per cent. Hong Kong's entrepot function put China at the top of its re-export market, taking 19.3 per cent of re-exports, followed by the U.S. with 11.5 per cent.

The first quarter of the current year showed a marked but anticipated check for domestic exports, up nine per cent in money terms over the first quarter of 1981, but static in real terms. While the U.S. as a market showed real year-on-year first quarter growth of two per cent, the UK showed a five per cent real decline. China, however, proved an outstandingly strong market, with a boost of 68 per cent.

Hong Kong can, however, count itself lucky to be feeling recession later than than its Western neighbours. Mr Peter Tsao, industry commissioner, suggests two factors which may have been at work in the past couple of years supporting the relatively buoyant local economy.

In 1980, the assassination of South Korea's President may have caused regional buyers, fearful of political unrest there, to have diverted orders towards Hong Kong. In 1981, when inventories worldwide were pared back under the burden of high interest rates, Hong Kong's capacity for flexibility and speed in manufacturing made it attractive to buyers who wanted to place short orders to be filled and shipped—or airfreighted—in a hurry.

For the current year, there is necessarily gloom in the air. After the no-growth first quarter for domestic exports, the Chartered Bank said in the May number of its Economic Indicators that expectations for a second-half export recovery have been tempered by absence of any concrete signs of economic upturn in the United States. In Brussels, meanwhile, EEC protectionism has been threatening Hong Kong's most important manufacturing sector, textiles.

The encouraging counter-factor is that Hong Kong has proved itself remarkably adept at benefiting from post-recessionary recovery. In the years of the oil-led slump, Hong Kong's real GDP grew by just 1.8 per cent in 1974 and 2.2 per cent in 1975. But in 1976, it grew by 18.8 per cent.

"One factor which allowed us to recover," says Mr William Dorward, director of trade, industry and customs, "was the ability in this free economy for costs including real wages to reduce at a time of recession, so there was no uneconomic padding of industry.

"It is a Chinese characteristic to share the available work and reduce the hours, a practice which perhaps the West will have to adopt if unemployment there remains at present rates for a long time. When the West became hungry for goods, we were straining in the slips. The rapidity of the recovery was as remarkable as the recovery itself. I'm confident the same thing will happen now."

While there is no formal data yet to suggest that Hong Kong wages have already dipped with the present economic downturn, another major industrial cost has dropped substantially. Helped by a high level of government sales, industrial land prices have tumbled in some areas by a half and more since the start of the current year. While that may be of little comfort to established manufacturers, it brightens the start-up prospects for new ones.

New industry start-ups are very much on Hong Kong's mind at the moment, as it looks ahead to the emergence of a new generation of manufacturers. Some 40 per cent of manufacturing sector employment and exports are now accounted for by textiles and garments, a low-margin industry but one which has proved itself a stable long-term economic base.

A further 20 to 25 per cent of the manufacturing sector is accounted for by the light industries whose versatility is much famed. Plastic flowers, wigs, and footwear may be produced from the same premises as world tastes change.

Within the remaining 35 per cent of the manufacturing sector lies Hong Kong's hopes for the future — higher technology industries, particularly electrical and electronic goods. Four years ago, Hong Kong had the capacity to make perhaps 2,000 television sets a year, says Mr Tsao. Now, capacity is eight or ten times that. As of this year silicon chips are manufactured locally.

Managing industrial policy within a non-interventionist economy sounds something of a contradiction in terms, but in Hong Kong's case it consists of providing general support facilities rather than specific incentives. "We work under broad headings," says Mr Tsao, "and it is for the private sector to do the individual work under those headings . . . The Government is very actively involved, not in leading industry but in following it, providing support."

The one area in which the Government may make a specific intervention is in allocation of land to a suitable industry by private treaty, below prevailing market prices. As a more general move to ensure that industrial development is not constrained by lack of suitable premises, it has moved over the past three years to prescribe that some industrial land developments must, as a term of their lease, offer factory space in both small units and also large ones suited to heavy equipment, rather than just the conventional medium-sized units which might have been most cost-efficient for the developer.

Beyond land treaties, specific preferential treatment is withheld. "If a sector is subsidised," says Mr Tsao, "it is not going to show its true worth, its true efficiency. The chances are that subsidised industry is not going to be as efficient as an industry which has been set up on its own and survived. They will be losing out to people who are more efficient . . . the next thing you have to do is to protect that particular industry, introduce quotas. Help to industry is not all that easily given because it has got implications all the way through. A very well-intentioned policy will very often end up with protectionism."

The openness of Hong Kong's economy means that its development tends to be shaped by international demand rather than domestic supply factors. As world trade grows, so does Hong Kong's prosperity, so long as its costs remain competitive and its markets remain open.

An important factor on the domestic front remains Hong Kong's small size, which may have proved something of a salvation over the past couple of decades. There are no industrial dinosaurs—steel plants, basic chemical complexes—competing for market share in an over-supplied world. For the future, size may be something of a constraint. There is not the domestic base to support the heavily capital-intensive research and development necessary to high-technology innovation. "Development, yes, research I doubt," says Mr Dorward, who remains spectical of the "science-park" concept. "It always seems to me to have the concept of putting a bucket over rhubarb."

On the development front, the adapting and re-packaging of new technology, the Hong Kong productivity centre with its laboratories and technical services is set to play a key role. The Government also funds specific technology-related projects in the academic sector. University work is now under way, for instance, to develop computer software suited to the testing of local microchips.

Another domestic factor which looks likely to prove of increasing importance to Hong Kong's industrial future is the neighbouring special economic zone of Shenzhen, just over the Chinese border. Already, some Shenzhen goods supply the Hong Kong consumer market, but scope remains for heavier industry —a steel castings plant, for instance—supplying Hong Kong's manufacturing sector, an up-stream to Hong Kong's downstream.

Ultimately, Hong Kong's strength lies in its unit costs. There may be no tax holidays, but corporation tax stands at just 16.5 per cent. Businessmen may pay high rents for accommodation, but salaries tax is just 15 per cent. Wages may be high by regional standards, but so is productivity and cash is king. In some other countries, says Mr Tsao, "when the Government wants to industrialise, to modernise, they can motivate people by saying 'you are doing this for your country.' This is not a country. We can only tell them, you are doing this for your money."

**DOMESTIC EXPORTS**

by country of destination

(HK$m)

| | 1st half 1981 | 1st half 1980 | Growth rate (%) |
|---|---|---|---|
| U.S. | 12,554 | 10,414 | 21 |
| UK | 3,394 | 3,128 | 9 |
| West Germany | 3,223 | 3,391 | − 5 |
| Japan | 1,246 | 1,036 | 20 |
| China | 1,177 | 680 | 73 |
| Australia | 1,076 | 895 | 20 |
| Canada | 993 | 762 | 30 |
| Singapore | 802 | 828 | − 3 |
| Rest of the world | 11,139 | 9,988 | 12 |
| *Total* | 35,604 | 31,122 | 14 |

**RESTRAINED TEXTILES TO U.S.**

Exports in 1981

| | Quantity licensed ('000 equivalent sq yds) | Restraint limit ('000 equivalent sq yds) |
|---|---|---|
| Cotton and man-made fibres: | | |
| Yarn and fabrics | 147,706.4 | 313,719.6 |
| Apparel | 657,803.0 | 712,647.8 |
| Miscellaneous articles | 40,852.8 | 70,839.7 |
| Wool textiles and clothing | 37,738.9 | 43,442.6 |

Source: Hongkong and Shanghai Bank.

*Weaving nylon cloth.*

# Setback for mill sector

HONG KONG'S textile and garment sectors are the backbone of its manufacturing industry. They account for just over 40 per cent of domestic exports, employ a comparable proportion of the manufacturing sector workforce, and make this small territory the largest garment exporter in the world.

Textiles and garments have been a traditional Hong Kong business dating back well beyond the Second World War, but in those pre-war years were something of a cottage industry. It was only after the war that industrialisation soared, spurred by the Communist rise to power in China which saw many entrepreneurs, particularly from Shanghai, moving to Hong Kong and bringing with them the know-how and money which they applied to the development of textiles and other light manufacturing industries.

Garments were, in the early days, very much the junior branch of the industry. According to the report of Hong Kong's advisory committee on diversification, there were in 1950 450 establishments of various sizes engaged locally in cotton spinning, weaving, finishing and knitting. They employed 25,000 workers, which then represented some 30 per cent of the manufacturing sector workforce. The clothing industry had just 40 factories and 2,000 workers.

By 1976, when a surge in world demand for denim drove Hong Kong's spinning and weaving factories up to their production peaks, the spinning sector alone employed 25,000 workers, while the weaving sector employed 37,000. The move up-market towards higher value-added operations had, however, seen a still more dramatic growth in the garment sector. By 1976, its 8,000 factories employed 253,000 workers.

Last year, Hong Kong's total domestic exports of textiles and garments reached HK$33.6bn, up from a prior year HK$27.8bn. And of that total, clothing accounted for HK$28.3bn against HK$23.3bn in 1980.

The mill sector—spinning and weaving—has in recent years been declining in volume terms as well as in size relative to the garment sector. In 1981 the weaving sector produced 695m sq metres of woven fabrics, compared with 760m sq metres in 1980. The output of cotton yarn last year stood at 126m kilos, compared with 164m kilos in 1980. And man-made fibre year production dropped from 44m kilos in 1980 to 39m kilos in 1981.

The decline of the mill sector has coincided, however, with a now-deflated property boom, enabling some industrialists to take more profits on developing their land than they were making from using it for their own manufacturing purposes. That shift, argues Mr William

**TEXTILES**

ROBERT COTTRELL

Dorward, Director of Trade, Industry and Customs, can be seen as market forces working to the general good.

"When people said they were going out of industry into the real estate business," explains Mr Dorward, "the land which they had was zoned for industrial purposes. Therefore they were producing more industrial premises for up-to-date industries. The sunrise industries were being built on the sites vacated by the sunset industries, which strikes me as being the salvation of the industrial world. I wish I could see it happening in a lot of other places."

The outlook for Hong Kong's spinning and weaving sector remains uncertain. Dr T. K. Ann, chairman of the major textile and garment group Winsor Industrial, said in his last annual statement that the sector was "in a state of disarray." Spinning and weaving sectors in neighbouring countries were, he said, in many cases "receiving Government assistance, and Hong Kong's free port offers all of them a convenient dumping ground."

"The question is," asks says Industry Commissioner Mr Peter Tsao, "whether the garment sector really needs a locally-based primary sector."

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# Militant leader in Brussels talks

**MULTI-FIBRE ARRANGEMENT**

GILES MERRITT

HONG KONG holds the key to the outcome of the third, 1982-86, Multi-Fibre Arrangement (MFA) that is now being negotiated in Brussels, between the EEC and the 28 mainly Third World textile exporting nations concerned.

It is not the only key, for rather like a nuclear weapon made all the more fearsome by sloppy security, there are all too many detonator keys in other hands. But, for a variety of reasons, Hong Kong's role in the world textiles pact, backed by the General Agreement on Tariffs and Trade, governing an estimated $80bn worth of trade is crucial.

Hong Kong is the unofficial yet acknowledged leader of the four "dominant" producers that account for over four-tenths of all MFA garment exports to the European Community—Taiwan is voiceless for obvious political reasons, Macao's interests risk being submerged in Portugal's wider EEC accession stance and South Korea looks to Hong Kong's British-dominated civil service for a negotiating lead.

As for the other MFA signatory countries now attempting to strike bi-lateral MFA pacts with the European Community, many of them see the deals to be achieved by the dominant suppliers with the EEC as a vital factor in shaping the deals they will themselves receive.

It is no secret that Hong Kong is also an increasingly militant leader. On June 15, just a fortnight after arriving in Brussels to open talks with the European Commission, the Crown Colony's impressive 17-man delegation flew home to await fresh proposals from the EEC that could form the basis of more fruitful negotiations at a later stage.

It was not, both sides stressed, a "walk-out" in the classic sense of the term; but with the EEC's demand for a cutback of up to 12 per cent in some of Hong Kong's major garment export categories having been rejected out of hand, it was at very least a "walk away" from the negotiating table.

Hong Kong could not, of course, have afforded such a militant gesture unless it had already been assured of significant backing from other MFA producers. That India's negotiators had a week before returning to New Delhi in similar circumstances and that both the delegations of Malaysia and Singapore were also understood to be packing their suitcases strengthened Hong Kong's resolve.

European Commission officials, who had known that the restrictive negotiating mandate handed down by EEC member states would ensure extremely tough talks, but who had nevertheless hoped for a single negotiating session with each MFA country, conceded that an unscheduled "second round" of MFA bilaterals with the hardliners would now be required in August and September of this year.

Not too much should be made of the skirmishing victories against the EEC won by these and other MFA textile exporting countries in the opening stages of the bilateral discussions. The European Community is the principal importer in the MFA framework and is well aware of its strength. Technically, it has until the end of 1982 to play a waiting game and force the hungry textile exporters back to Brussels, for the existing bilateral deals struck under MFA II do not run out until then.

Practically, the industrialised Common Market countries being represented by the Brussels Commission do not hold all the high cards. For the June 1982 creation of a "second round" of MFA talks was by a number of accounts no accidental flash in the pan, nor is the EEC's political position as the powerful "client" of the MFA countries so unassailable as is sometimes suggested.

The common front being presented to the EEC by the MFA hardliners dates back to November 1980—although it could equally be said it stems from 1977 and the imposition of a stern MFA II package by the EEC that reversed the original 1973 MFA's character as a system for liberalising and encouraging the Third World's textiles export earnings.

It was, however, the agreement of most MFA exporters on the Bogota Paper some 18 months ago that forged a new solidarity which, then as now, is aimed at denying the EEC the use of divide-and-rule tactics. Forged to some extent out of Indonesia's successful challenge to the "reasonable departures" restraints being imposed on it under MFA II —the Jakarta Government held to ransom a mix of unrelated British capital projects until it gained satisfaction—the textile exporters' Bogota blueprint is for a collective stand against EEC protectionism.

A glance at the potential damage to Hong Kong's still thriving economy—vastly more resilient than those of most of its MFA allies—gives an indication of how much the textile and garment exporting countries have at stake. Over 40 per cent of Hong Kong's domestic export earnings, and almost precisely the same proportion of its manufacturing sector employment of 1m people, is accounted for by textiles and clothing.

Almost a quarter of the Crown Colony's gross domestic product is in the industry, and such have been Hong Kong's efforts to trade upwards into the quality end of the clothing business to escape competition from cheaper producers, it is now being calculated that cuts in its volume of sales to the EEC would have a disproportionately harsh effect on overall export earnings.

In other words, a 10 per cent cutback on the Crown Colony's level of some HK$10bn worth of clothing and textiles sales to the European Community would involve a reduction of around 10 per cent in foreign exchange earnings.

Hong Kong's economic problems, despite its well-known refugee and housing difficulties, have in the past had an unreal quality in the eyes of other hard-pressed nations, both developing and developed: . . . after all, a Government that runs a budget surplus presides over an economy that is not as others are. That was the argument that in the 1977 MFA renewal talks permitted the EEC to single out the dominant producers as less deserving of generous terms than the genuinely Third World producers.

Hong Kong's determined campaign since then to point out to the other MFA countries that they did not benefit through larger quotas and easier access from the slack that those cutbacks on the Crown Colony should have produced—that instead it was the EEC's less competitive garment producers that gained—has done much to strengthen the new solidarity.

Few observers, though, would care to guess the final outcome of the MFA negotiating rounds. Ranged on the one side are the newly-cohesive textile producers, while entrenched on the other are the governments of the Ten who know that the terms of MFA III could have a direct impact on the speed with which approaching half of the EEC's four million or so textiles and clothing jobs will disappear during the 1980s to fuel further their crisis-level dole queues.

Perhaps more important than that is the realisation on both sides that the Multi-Fibre Arrangement is no longer just about textiles. It is more and more being seen as a test case for the future of the world trading system born out of successive post-war liberalisations and now under protectionist threat.

That knowledge, Hong Kong's senior government officials privately point out, could be the MFA exporters' ace in the hole. For although EEC governments have agreed that they will only ratify the new MFA III framework protocol agreed six months ago in Geneva if the bilateral deals that give it substance are "satisfactory," collapse of the MFA system would presumably involve EEC unilateral measures to meter textile imports instead.

Such moves would be at best questionable under the Gatt, and difficult for EEC governments to defend at the forthcoming Gatt ministerial talks in Geneva in November this year that are already being heralded as vital to the defence of free trade.

*Shirts for export in the Crocodile shirt factory, one of Hong Kong's leading shirt manufacturers*

# Mill sector

CONTINUED FROM PREVIOUS PAGE

mill sector, to support it. There is no answer yet."

But Mr Tsao does see some encouraging signs for re-investment of property profits in textiles, particularly a revival of interest in the dyeing and finishing sector. "The propetry market is no longer active," he says. "Land is much cheaper. Money is lying around not doing anything, it has to be invested, and what better place to invest than in something which they used to do?

The growth of Hong Kong's garment industry has been led by a steady progress up-market towards higher value-added goods. It now has its own high-fashion designers, its manufacturers of designer-label goods, and its supply lines to stores as prestigious as Harrod's of London.

Overall, says Mr Tsao, the textile and garment sector relative to the economy as a whole has reached a level at which he would be happy to see it stabilise for some years to come. "We've found our niche . . . it is a very comfortable position to be in as far as industrial development is concerned, because we have a solid stable base."

While the up-market movement into fashion goods has kept Hong Kong a step ahead of its regional competition, it has also made the outlook for the industry more difficult to predict. Order books for basic clothing items used to run six to eight months ahead, so it would now be possible to speak with some confidence about sector performance for the whole of the current year.

For fashion items, buyers place quick short orders and demand fast replenishment if the line sells, so the outlook is more difficult to judge. But expectations are that this year will be a poor one for the industry, with some manufacturers already running contracts at loss-making prices, and protectionism binding markets ever tighter.

Hong Kong's textile and garment industry is an exporting industry wholly dependent on the openness of its overseas markets. The key to those markets is the so-called "Multi-Fibre Arrangement" (MFA), a framework within the General Agreement on Trade and Tariffs (GATT). The MFA provides for suppliers and markets to frame their own bilateral agreements, and it is here that Hong Kong's headaches lie.

Hong Kong's most important export markets are the United States and the EEC, which between them take 61 per cent of its domestic exports. A bilateral agreement was concluded with the United States in March, on terms which Hong Kong regarded as uncomfortably tough but as good as could realistically have been expected.

The nature of the agreement was to restrain severely growth of exports of sensitive items—in other words, all of those where Hong Kong had in past years used its quotas to the full — while freeing from restraint other categories of relatively less importance. The overall effect of that deal, estimated financial secretary Mr John Bremridge, would be to trim the forecast growth rate of domestic exports to the U.S. by approximately one per cent.

Currently, Hong Kong is in the throes of far less palatable negotiations with the EEC, facing apparently uncompromising demands for substantial quota cutbacks. Hong Kong was, in turn, insisting that cutbacks could not be tolerated.

## Far apart

Hong Kong's Trade Commissioner, Mr Lawrence Mills, entered the talks saying that the two sides were as far apart as Brussels and Kowloon—going the wrong way round. The mood in Hong Kong was one of not only commercial foreboding but also moral outrage. Mr Dorward said of the EEC's stand: "Its callous disregard is causing very real threats to the maintenance of any kind of respect for international obligations."

The fear also intrudes that if the EEC did impose its quota cutbacks, other trading partners, not least the U.S., might demand a rewriting of agreements to gain similarly increased protection for their own markets.

There is little that Hong Kong can do against protectionism, since the Government believes that any retaliatory moves to restrict access to its own market would compound the problem rather than provoke a solution.

The local textile industry can at least draw upon many years of experience of such problems: between 1959 and 1979 it concluded more than 50 bilateral agreements. But the run-in with Brussels reinforces with a quantum leap the wisdom of looking towards a more diversified economy less vulnerable to specific protectionist barriers.

# Campaign to strengthen technology base

FOREIGN INVESTMENT
ROBERT COTTRELL

ALTHOUGH HONG KONG is commercially such an international city, foreign direct investment has made a surprisingly modest penetration into local manufacturing industry. Out of some 50,000 local factories, overseas investors account for just 400. That figure does, however, exclude the extensive presence in Hong Kong of Chinese interests.

The U.S. was the largest foreign investing country, according to a year end 1981 survey conducted by the Hong Kong Government, with HK$3bn invested in 11 establishments. Second is Japan, with HK$2.2bn. Those two countries between them account for threequarters of the total HK$7bn foreign investment in Hong Kong's manufacturing facilities.

Britain comes a poor third with HK$486m invested, followed by Switzerland, the Netherlands, Denmark, Australia, Singapore, Taiwan and then France.

As well as being the largest single investing nation the U.S. also favoured larger average investments per establishment—two-and-a-half times the average HK$11m British investment.

Looked at on an industry-by-industry basis, electronics has received HK$2.7bn foreign investment: textiles, a larger and more mature industry, has received HK$868m, followed by electrical products, chemicals, watches, food, metals, toys, building and printing.

While Hong Kong's economic growth over the last decade can scarcely be said to have suffered unduly from a lack of foreign investment, attracting overseas companies is receiving top priority nowadays, not so much because Hong Kong needs cash, as because to build its industries of the future it needs know-how.

"We want new technology," says Mr Paul Wong, the Government's chief executive for industrial promotion, we want technical skills, marketing techniques, management techniques. We like to have the stimulus, the imeptus to develop new ideas."

The industrial promotion division, part of the trade, industry and customs department, is following through its desire to attract new investors with the opening of offices around the world staffed by a divisional officer for the region.

The first such office, in Japan, was formally opened in March, although groundwork began last November. A London office—within the Hong Kong Government office in Grafton Street—opens this month, directed at the UK and Scandinavia. An officer is now stationed in Stuttgart, preparing the ground for an office to liaise with continental Europe, while another office will be opening in San Francisco.

"We have to go out and sell ourselves," says Mr Wong; "we believe that we must promote actively. It is not enough to sit and wait for customers to come."

Hong Kong's selling points are, says Mr Wong, that it is "the ideal type of investment environment—very good geographical location, terrific port, third largest container terminal in the world, and a very hard-working labour force. It is a very competitive environment. The Government itself believes in the profit motive. Doing business and making profit is not a dirty word."


The computer centre operated by the Swire Group

As an additional attraction, he says, investors may see "a very great potential for doing business with China. Through Hong Kong they will be able to approach Chinese corporations to do more business in China. It is a gateway."

It is only on such arguments that Hong Kong can be sold, for the government has no cash incentives and soft loan packages to lure investors. Recognising, however, the singularity of Hong Kong's limited land space and high land prices, it is, however, willing to negotiate the provision of a tract of land at below market price to a desired investor.

While there is a formal government policy of non-direction of investment in Hong Kong, the influential report of the advisory committee on diversification, published in 1979, looked towards an economy less dependent on textiles and garments.

Diversification away from but not at the expense of the textile and garment sector is now something of an article of faith, with the emphasis on higher technology industries. That, coupled with a limitation of resources, means that the industrial promotion effort tends to target higher-technology companies.

"When we say 'target,'" says Mr Wong, "it is only because we have a manpower problem. We can't go and see every industry and every company."

Hong Kong's size and policies themselves contribute to the necessity of attracting overseas technology, explains Mr Peter Tsao, industry commission. "We don't think we are as influential as places like Japan," he says, "so that we can innovate, invent a product and create a demand for it, get people to buy it, use it, accept it . . . It takes a whole different kind of government philosophy to make that happen. Because you must have a degree of support, you must have a domestic market to support it, which means you have to restrict imports to get the thing going."

"We are not big enough," says Mr Tsao, "to do the research work to create technologies. We do what the Japanese used to do, either buy them or get the companies to come to Hong Kong, because, by bringing their technology to Hong Kong, they can make more money. It is as simple as that, there is no philosophical merit to investing in Hong Kong. The cash is here, all you need to do is bring your technology."

To put that message across, the industrial promotion division supplements its overseas offices with missions—two this month, to Scandinavia and the United States—to visit target companies.

"Companies," says Mr Wong, "which we believe in from examination of their records, from what they produce, from their level of technology, have a great opportunity for development here." The division has an "indicative list" of industries which it would particularly like to attract, but under very broad headings — electronics, precision moulding for instance.

As to response, Mr Wong reports that the Japanese office, still in its very early days, has shown "most encouraging ground for our promotion.

"Although Hong Kong's absence of government intervention has in the main been an attraction, some people have told us that the Japanese may find our free environment a little bit too much—they'd like to have some direction instead of coming here and doing their own thing."

As far as Britain is concerned, says Mr Wong, "UK investment has in the past been concentrated in trading, financial and shipping services. We still believe the UK is one of the most advanced industrialised countries, with good technology and skills . . . We want UK companies to come to Hong Kong and re-examine it for things they may have missed out on in past years.

"We are still looking very closely at engineering, metalwork, ferrous and non-ferrous industries where still quite high technology is needed."

The industrial promotion division supplements its overseas work with domestic representation. "It is important," says Mr Wong, "that we continue to stimulate the interest of people already in Hong Kong in their industrial operations."

The domestic and overseas aspects mean that the division can act as a matchmaker, bringing together joint venture partners. To that end, it maintains a register of local companies interested in upgrading their production methods with overseas technology, and overseas companies interested in Hong Kong.

"Industrial investment promotion work is not immediate," says Mr Wong. "Some companies may take five years to come to a definitive conclusion. We may not see any concrete results after a year's work but we can't just sit idle. We need to go abroad and bring in the new technology."


The computer-controlled telex exchange at Cable & Wireless

# Well over a century of service to local business community

CHAMBER OF COMMERCE
ROBERT COTTRELL

The Hong Kong Chamber of Commerce comprises some 2,600 member companies. On their behalf, it provides representation on government and other official bodies, corporate services, and a channel for general communication between the business sector and the local community as a whole. It is Hong Kong's oldest trade and industrial association and was founded in 1861.

The activities of the Chamber last year included a mission to the U.S., presenting Hong Kong's potential to over 1,000 businessmen there; seven buying and selling missions to 15 countries organising contacts with Chinese official bodies; and making submissions to the Government on topics including company law, the British Nationality Act, and civil service pay.

The chamber is run by a council which includes other senior businessmen with particular areas of expertise. Beneath it is a network of committees concerned with particular issues under the broad headings of trade, local affairs, and industry. The chamber has a permanent director, Mr Jimmy McGregor, who presides over about 70 staff.

On a day-to-day basis, the chamber handles inquiries from potential overseas trading partners—some 15,000 per year—which it refers to members on a rota basis. It is willing to mediate in trade disputes, and has the capacity to act as a legal arbitrator.

On a community relations level, the chamber offers educational scholarships to local candidates: maintains a standing fund to offer cash rewards to citizens assisting the police in the fight against crime: and administers a charitable trust to assist public servants and their dependants injured or killed while on duty.

TRADE DEVELOPMENT COUNCIL

While the Chamber of Commerce is funded from members' subscriptions, the Hong Kong Trade Development Council was established by government in 1966 with funding from an ad valorem levy on exports and imports plus an annual government grant.

Its chairman and director—currently Mr Y. K. Kan and Mr Lew Dunning respectively—are appointed by the Governor, and it is responsible for promoting international trade with a particular emphasis on exports. The TDC has 22 overseas offices plus representatives in three other cities, and last year it organised 70 major projects including sales missions and participation in overseas trade fairs. It has four regular local publications, and produces a series of foreign-language newsletters to keep overseas businessmen informed about Hong Kong affairs.

The TDC's head office is organised into four departments. The research department undertakes market and product analysis, providing the council with data to draw up its own promotion plans and local businessmen with market information. The publicity department looks after TDC publications and publicity, while the design department concerns itself with the council's visual image.

The fourth department, trade services, is divided into two sections. The overseas section organises promotional projects approved by the council, while working with the research department to advise the council of opportunities for developing Hong Kong trade further.

The local section looks after trade inquiries, local promotions and incoming missions. Its staff include a field section which concentrates on publicising and promoting the council's services by personal visits to trade associations, factories and companies.

In 1980-81 the TDC handled 116,101 inquiries comprising 53,258 from overseas, 55,263 local companies seeking local suppliers, and 7,580 local businessmen seeking export outlets.

STANDARDS AND CALIBRATION LABORATORY

Hong Kong's Standards and Calibration Laboratory has its roots in the advisory committee for diversification, whose influential report published in 1979 looked at potential for local economic growth and in particular the infrastructure needed to support a more broadly-based economy.

One of its findings was a "serious inadequacy of industrial support facilities and of technical back-up services." and it recommended that government establish a primary standards laboratory catering initially for electrical and electronic standards, but with potential for expansion into other fields.

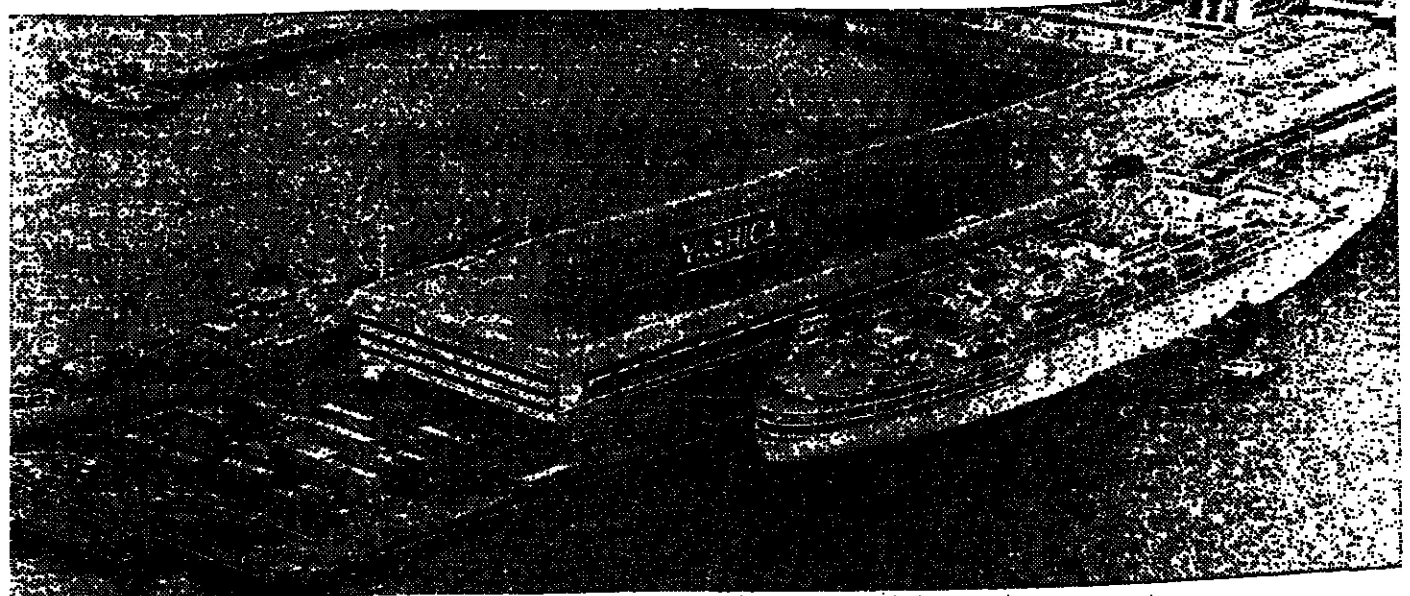
While a calibration laboratory might sound a rather abstract concept, it fulfils an immediate concrete and local need by maintaining reference measurements for application to manufacturing industry. Electronic components in particular must be finished within microscopically fine tolerances, not only so that the output from any one plant is standardised, but so that it may be compatible with production from plants elsewhere in the world.

The absolute benchmark standards of, for instance, voltage or mass, are the so-called "primary standard" maintained in a handful of national institutions and correct to a few parts per million or even less.

Whereas a few years ago Hong Kong was ...merely assembling consumer electronics goods it now manufactures its own silicon chips, and the quality of locally-available reference standards has become critical. At present, equipment such as atomic clocks accurate to a second in 4,000 years may be borrowed from national laboratories for local checking, or local equipment despatched back to national laboratories for fine-tuning.

The team setting up the Hong Kong laboratory is headed by Mr Brian Tyler, who expects it to open in interim premises in mid-1983. It will act as a back-stop to the 15 or 20 laboratories operating locally in the private sector, and will periodically check its own standards against the still more precise ones maintained in for instance the U.S., Britain and Australia.

While geared in its initial stages to electronics standards, the Hong Kong laboratory will also contain a temperature calibration facility, and will house local reference standards for mass and length.

*Sir Yue Kong Pao, chairman of Intertanko and of World Wide Shipping seen in his head office in Hong Kong and the Ocean Terminal, Kowloon*

# Fleet expansion will be at a less hectic pace

## SHIPPING

JEFFREY BROWN

HONG KONG'S shipping industry represents just under 10 per cent of the world's merchant marine fleet. At the end of last year, Hong Kong shipowners could between them muster nearly 57m dwt, made up of more than 1,500 ships, the biggest single portion of which—almost half—was bulk carriers registered under Liberian or Panamanian flags.

Expansion has been little short of meteoric in recent years, in line with much else of commercial value in the colony. And a number of shipping companies will be adding substantially to their tonnage this year and next. But the signs are that fleet expansion will follow a more sedate route from now on, as supply overtakes demand and Hong Kong's newly emerged shipowners reach some sort of first base maturity.

Asian freight markets weakened visibly in the second half of 1981, and few observers see any chance of a significant recovery until well into 1983. Hong Kong owners are continuing to reduce their dependence on Japan as a source of chartering-out tonnage, and a number of major companies are looking increasingly towards Europe as a means of diversifying trade flows.

According to recent statements from Sir Yue-Kong Pao—Hong Kong's largest fleet owner with over 200 ships totalling 200m dwt, including those on order—currency chaos, falling trade volumes and high inflation and interest rates are likely to continue to cloud the Asian shipping picture for some time to come.

The outlook for shipping in Hong Kong is conditioned almost as much by its structure as the prevailing trade winds. And in this respect the reasons for the rapid growth of the industry is worth closer inspection. Hong Kong shipping in its modern sense has its origins in Japanese demand for ships, a very favourable tax position, the rise of the Asia dollar market and natural entrepreneurial flair.

At the beginning of the 1970s a highly profitable mutual co-operation was struck up between the all-powerful Japanese trading houses and the Hong Kong maritime community. Japan needed a seaborne transport and saw a way of getting it through Hong Kong that was far cheaper — more cash-flow efficent — than using indigenous *shipping trades.*

The system that evolved is known as "shikumisen." Under such a deal, ships ordered by a Hong Kong owner would be built in a Japanese yard to the specification of a Japanese charterer. On delivery, the ship would be entered into a long time charter that would have been planned before the keel was laid.

The system allowed Japanese charterers to create tonnage financed by foreign debt at a time when Bank of Japan curbs disallowed such a move by a domestic buyer. It also plugged Japanese seaborne demand into the advantages of flag of convenience shipping with its attendant low operating costs.

The Japanese trading houses provided all the necessary introductions and pulled all the financial threads together. In certain instances, they were even known to act as the exporter of a vessel, providing any "top up" finance that the banks could not handle.

For its part, the Hong Kong shipping community lost no time in supplying the neccessary enterpreneurial flair, helped by a tax background that made rival shipowners in other parts of the world grind their teeth in envy. Most Hong Kong shipping companies pay little or *no corporate tax. When* a liability is due, it is levied at 17 per cent—in striking contrast to the 40 per cent to 50 per cent flat corporate rate faced by other shipping industries.

The Japanese connection has been a critical influence on the growth of Hong Kong shipping. The percentage of Japanese cargo carried by chartered foreign flag tonnage in external seaborne trades, rose from around a quarter in 1975 to 35 per cent by 1980. At the same time, something like half of the Hong Kong merchant fleet is estimated to be on charter to Japan.

However, the Hong Kong-Japan shipping axis is now showing signs of strain—partly as a result of tonnage overcapacity in Hong Kong and partly stemming from the faltering Japanese economy and measures taken inside Japan to blunt the attractions of leasing deals along the lines of the *shikumisen.*

Unabashed, Hong Kong's shipping magnates look to be casting around successfully for new roles. One of the most important of these has centred on increased links with mainland China. At the same time some shipping companies have dipped a vigorous toe in the open market, picking up a number of five-year time charters with major oil companies.

One of the most eye-catching of Hong Kong's recent attempts to diversify away from Japanese trade centres on the formation last year of United Shipping and Investment Company. This is a tripartite venture involving the Bank of Japan, World International and mainland China.

This is the first time that the Chinese have set up a private commercial venture outside the People's Republic, and the unusual feature of the deal is that they have accepted a minority shareholding, content to sit on just 45 per cent of the invested capital. Moreover, the management team is headed from Hong Kong with Sir Yue-Kong Pao taking the chair.

As for the individual companies, World International remains by far the biggest and most prestigious with net fleet assets equivalent to $800m at the last balance sheet date — March, 1981—and total tangible assets closer to $1.4bn. The company has extensive interests in property, insurance and financial services, but shipping still accounts for some 75 per cent of total profits.

Orient Overseas Container is another major group, having acquired the Furness Withy operations in the UK in 1980. Barely nine years old, OOC is increasingly regarded as part of Hong Kong's shipping establishment. Sadly, its founder, Mr C. Y. Tung died earlier this year. His acquisition of the Furness group for $200m was a considerable coup.

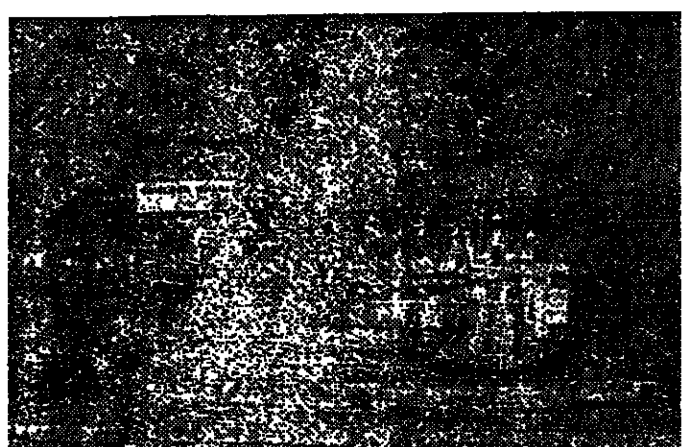
Wah Kwong has been one of the fastest growing fleets in recent years, and so too has Carrian Investments whose recent merger with Grand Marine Holdings has propelled Carrian into the top flight of ship owners. Wah Kwong's present fleet—much of it owned with local partners or foreign charterers—comprises 44 ships of some 4m dwt. A further 24 ships of around 1.5m dwt are on order with value in the region of $460m.

### COMMERCIAL CARGO

Tonnage carried

Tonnes

| | Air | | Sea | | Land | |
|---|---|---|---|---|---|---|
| Year | Imports | Exports | Imports | Exports | Imports | Exports |
| 1977 ... | 70,639 | 113,374 | 19,112,226 | 6,525,061 | 1,527,415 | 1,202 |
| 1978 ... | 91,307 | 137,624 | 20,909,017 | 6,923,416 | 1,900,908 | 3,993 |
| 1979 ... | 107,019 | 150,389 | 22,598,774 | 7,711,080 | 2,022,506 | 58,046 |
| 1980 ... | 105,200 | 152,666 | 24,622,506 | 8,936,622 | 2,072,726 | 184,710 |
| 1981 ... | 121,405 | 168,900 | 26,448,318 | 9,170,622 | 1,998,232 | 306,450 |



*Containers at Kowloon Wharf*

As demand for traditional audio equipment tails off manufacturers turn to products of higher value-added content

# Electronics concerns fight lower-cost Asian competitors

A FEW YEARS ago the average unit cost of electronic equipment produced in Hong Kong was about US$6. Today, the figure is closer to US$60 as the industry struggles up-market in an effort to fend off competition from lower-cost producing countries in the Far East.

Margins in some areas are under pressure at a time when sales have been hit by the recession. Yet overall the industry is expected to show a growth rate of between 10 and 12 per cent this year, with export earnings of around HK$ 17.5bn.

*Manufacturing* patterns are changing fast. As demand for traditional audio products—which still form the mainstay of the industry at 75 per cent of total output—tails off, manufacturers are shifting their sights towards items with a higher value-added content.

Computer components, television sets and a bewildering range of telephone gadgetry are becoming the products of the future. A measure of the fast-moving nature of the business is that sales of telephone equipment are expected to rise tenfold this year because of deregulation in the U.S. market and signs of a more liberal approach to imports in EEC countries.

It is not unusual to see executives of Hong Kong's more aggressive electronics concerns literally running from office to office. "It is a young man's game," said one of them recently. Fads still dominate the market—none more so than the craze for television and video games which has proved a bonanza for companies assembling under licence for Atari and Mattel, the two big names in the U.S.

At the same time, industry leaders like Conic Investments, which last year became only the second electronics firm to seek a stock exchange listing, are doing much to change the industry's image.

Conic now spends an increasing share of its sales turnover on research and development and markets a wide range of products under its own brand names. The company was also one of the first to move into the market for 14-inch black and white television sets, a large proportion of which are assembled and sold in China.

Small factory outlets still predominate in an economy that by tradition has favoured the little man. But several of the bigger concerns are beginning to control an increasingly lucrative share of total output as research costs mount and the pressure to move up-market intensifies.

Export of finished products and components worth

**ELECTRONICS**
NIGEL GIBSON

HK$15.7bn accounted for just under 20 per cent of Hong Kong's domestic exports in 1981, putting electronics into second place behind clothing and textiles as the manufacturing sector's two largest earners. Last year electronics firms employed 95,000 workers in some 1,115 factories throughout the territory.

Much of the industry is now concentrated in Kwun Tong, a new town in the New Territories at the end of the mass transit railway, attempting to become Hong Kong's answer to California's Silicon Valley. Despite a steady rise in wages, there is still little real incentive to automate.

A shortage of skilled staff has begun to hit certain areas like watchmaking, but here the trend is towards assembly across the border in China's special economic zones, where labour costs are as much as 20 per cent less than those in Hong Kong.

Even so, some companies at the sharp end of the competitive wedge are startingto import Japanese-made robots as a way of reducing overheads and, perhaps more importantly, of maintaining quality.

A number of high-technology employers like the Digital Equipment Corporation in the U.S. have also floated plans for raising the level of product development in the colony, but ambitious moves in this direction have been shelved until the U.S. economy emerges from recession.

Plans laid by the Hong Kong Government last year for giving industry a helping hand up the high technology ladder by means of a fresh injection of foreign capital look destined, for the present at least, to fall victim to the same cutbacks in spending.

Government figures on the level of overseas funding are sketchy, but a survey of 395 electronics companies last year suggested that about HK$2.67bn had been ploughed into the sector.

Earlier this year two locally-backed companies, Elcap and ACL Semiconductor, took what was described at the time as a "giant step forward for the industry" in starting up production of micro-processor chips, now the building blocks of almost every electronic product. Benefits being touted by the fledgling shipmakers include those of made-to-order manufacture and cheaper transport costs.

Even so, they face formidable problems, suppliers of chip-making equipment in the U.S. and Japan are reluctant to commit their engineers to the colony before demand grows and both companies have to import nearly all their raw materials and chemicals.

As one manufacturer put it: "I can see the plants being useful back-door source of technology for China, but it is doubtful whether there will be any real demand for their products in Hong Kong."

Land costs, despite a recent fall in property values, still constitute a serious handicap for electronics concerns who are forced to rely more and more on their reputation for productivity to stay ahead. Margins in areas like audio producas and calculators are being pared, and it can only be a matter of time before producers are forced to dump unprofitable lines. One of the fastest-growing sectors is computer components.

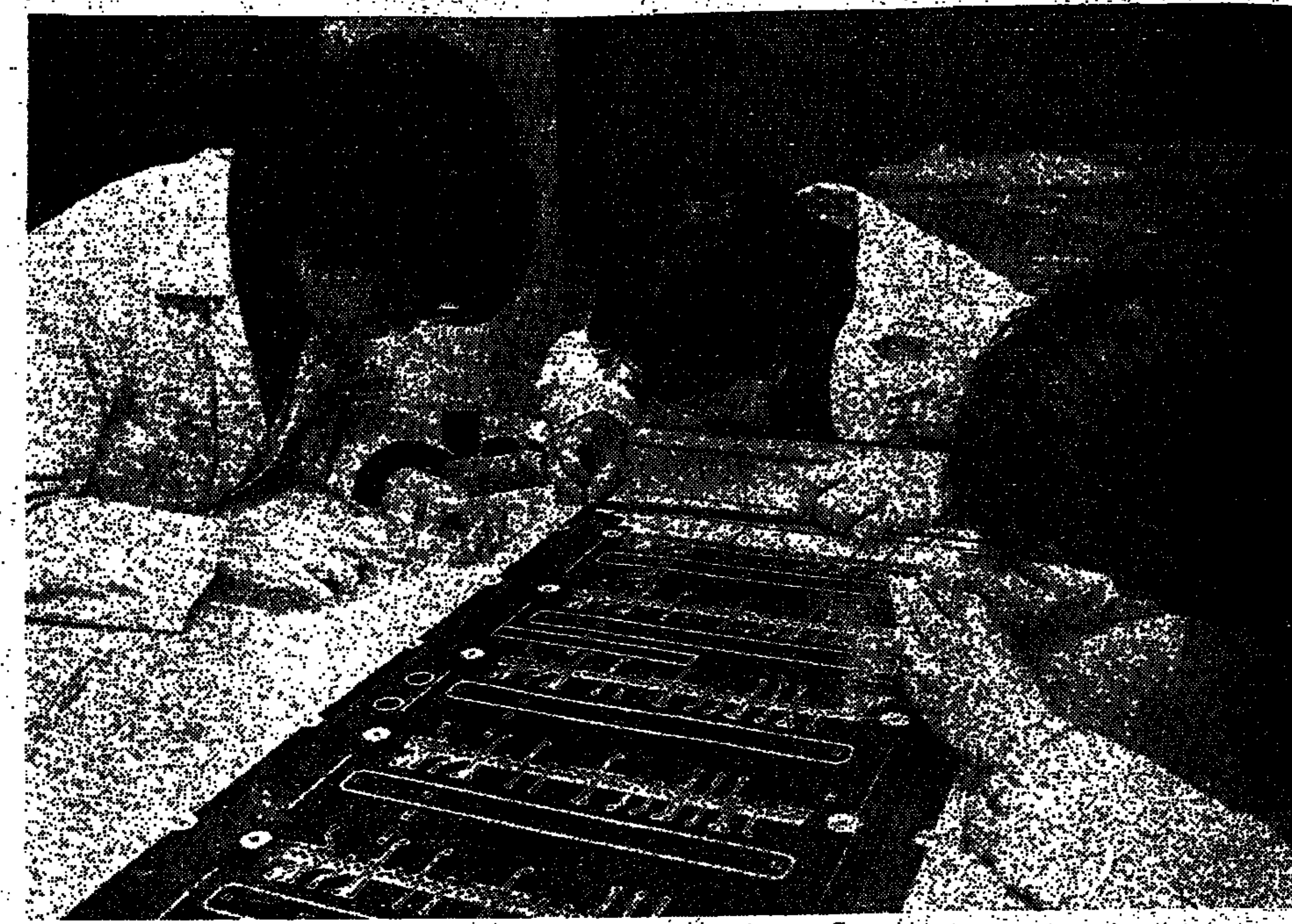
Exports of digital processors, the heart of a micro-computer system, rose 145 per cent during the first two months of this year and manufacturers predict sustained growth throughout 1982. Last year's total exports in this sector reached a modest HK$27.7m.

Despite some public commitment by Government's behalf to easing the growing pains of companies new to the sector, or those seeking to trade up-market, it is doubtful whether electronics manufacturers will ever receive the kind of incentives meted out to competitors in places like Singapore.

Instead, they will have to rely on their reputation for side-stepping and flair for seeing openings in the consumer market.

Meanwhile, manufacturers rely on being in the right place at the right time like those companies who last year saw a 582 per cent rise in the export value of video games—a market tipped to expand, if at a slower pace, for the next few years.

The big question now facing Hong Kong's electronics companies is whether they can keep the lid on costs. Skillful management of currency markets could also be a crucial feature. Most concerns are still imitators rather than innovator, but that could change.



*Laying out printed circuits at Ampex Computers*



# Japanese open assembly factories

COMPETITION in the watchmaking industry is fierce at the best of times, but when price-cutting becomes endemic and inventories start to pile up no one is prepared to give much quarter.

So it is at the moment and there is little doubt that watchmakers, particularly those aiming at the cheaper end of the market, are experiencing troubled times.

Hong Kong manufacturers, who since last year have become the largest suppliers, in both value and volume terms, to the vital U.S. market, are no exception. Retail prices have fallen after a sharp reduction in the cost of components. Last year's squeeze on profits sent a number of smaller producers to the wall.

Bigger concerns, caught in a period of over-supply, were forced to build up expensive

**WATCHMAKERS**
ROBERT COTTRELL

stocks to keep their labour at work. High borrowing costs and falling dollar revenues have merely added to their woes.

Mr George Block, chairman of Remex Holdings, one of the colony's leading watchmakers, set the scene when he said: "Every market, however small, is important during a period of recession." He was referring to France's surprise decision last year to impose a severe cut in imports of Hong Kong-made watches amid accusations that its own industry was being threatened.

France was a relatively small but expanding market and the decision, regarded by many in the industry as a precursor of things to come, drew an angry response. The issue is still being debated at official Government level and so far there is little sign that Paris is willing to abandon or even tone down its action.

It is digital LCD (Liquid crystal display) and LED (light emitting diode) watches at the lower end of the market which have borne the brunt of a decline in component values. Export revenue during the first two months this year fell 18 per cent and watchmakers expect little or no improvement for the rest of this year.

By contrast, demand for quartz analogue watches — battery-powered timepieces with traditional hands and faces—has surged, more than compensating for lost earnings at the bottom end of the quality range. Exports in this sector showed a healthy 44 per cent rise from January to March, compared with the same period last year.

Companies which are able to do so are plunging into the manufacture of instrument panel clocks for cars, a market that has so far failed to hold much sway but which the industry is confident will take off sooner or later. Exports this year showed an 87 per cent increase over last year.

Part of the problem of over-supply has been that making LCD and LED display watches is neither capital-intensive nor really labour-intensive. A buoyant market for second-hand machinery for making up and stamping wafer-built displays allowed small assembly shops to spring up and flood the market. For a while, they rose the crest of a wave, then glut shook the market.

The average selling price of an LCD watch fell by U.S.$10 to U.S.$28, within the space of months resulting in about a 7 per cent decline in dollar revenues—despite an increase last year of more than three times that in the volume of watches actually shipped.

Production of the higher-priced quartz analogue watches remains in Japanese hands because nearly all movements for these models are imported from Japan and concerns in Hong Kong are under no illusion that if they were to threaten seriously the Japanese industry a costly scramble for market shares could follow.

As with other sectors of industry, sharp fluctuations in exchange rates during recent months have been a constant source of concern. Buying parts from Japan in yen and selling finished watches to both U.S. and European markets against an unstable local currency has caused more than a few sleepless nights.

In an effort to counter this, and the downturn in demand from traditional areas, watchmakers have opened up fresh markets in the Middle East. Saudi Arabia now ranks third after the U.S. and West Germany in terms of total exports of both watches and clocks.

Kuwait, Egypt and Qatar, although less important at present in terms of volume — exports are siphoned off for duty-free sales — have all showed growth rates of 100 per cent or more so far this year.

Another problem facing the industry is the shortage of skilled labour. It seems that despite a trend towards assembly in China's special economic zones, where labour costs are up to 20 per cent less, and the extra pool created by the shake-out in textiles, watchmakers are finding it increasingly difficult to attract suitable workers.

Watch assembly is repetitive and unavoidably painstaking. A watch can contain as many as 50 components assembled to minute tolerances. Most workers are skilled women who, for reasons of security, prefer to draw a flat wage rather than negotiate piece rates. Many, it seems, are now leaving their jobs to spend more time at home and may return only after several months' lay-off.

Japan's leading watchmakers, in addition to their hold on the supply of components for quartz analogue models, are stepping up the level of assembly work they carry out in Hong Kong. Both Seiko and Citizen, attracted by the ready flow of competitively-priced watch cases made in Hong Kong, have recently opened assembly plants and sales outlets.

Movements are made in either Japan or Singapore and then sent to Hong Kong for the final stages of assembly. Plans for expanding have been delayed by the recession, but it is clear that both Seiko and Citizen will continue to play a major part in Hong Kong's watch industry.

Such is the pace of technological development within the industry as a whole that watchmakers now foresee the day when mini-computers will be small enough to be worn on the wrist. "The technology is there. It is just a question of miniaturising everything," commented Mr Block of Remex.

Already there are watches which can record the time in several continents, time a boiled egg, and wake you up in time to eat it, while playing a tune through a silicon chip.

When the watch with a tiny computer packed inside it finally reaches the department store shelves the chances are that it will be made in Hong Kong.

*Precision is needed in the watchmaking industry*

# Basic language proposal runs into controversy

EDUCATION

HILARY STREET

HONG KONG'S education system reflects the city's cosmopolitan culture. Both Chinese and English are used as teaching languages, while a small group of English schools offers education on the English pattern. An American and German school are available to children of all nationalities, and French, Japanese, Portuguese and Indonesian groups have their own schools.

Almost a quarter of Hong Kong's population is at present to be found in the classroom — 200,000 kindergarten pupils, plus just over half a million each of primary and secondary levels.

State schooling has expanded its scope rapidly to cope with Hong Kong's fast-growing and youthful population. Free compulsory education was introduced in all Government primary schools, and most Government-aided primary schools in 1971.

At secondary level, "junior" education—forms one to three—became free in 1978 and compulsory in 1979. Beyond junior level, the Government expects to provide subsidised schooling for over half of its 15-year-olds this year.

The Hong Kong education system is being reviewed by a four-strong panel of experts appointed in conjunction with the Organisation of Economic Co-operation and Development. While the panel's report is due in September, it has already suggested that Chinese should be given greater prominence as a teaching language among younger pupils.

Chinese is the teaching language of most primary schools already, whereas most secondary schools use English, with supporting tuition in English as a foreign language. The argument in favour of extending the use of Chinese—in the local Cantonese dialect—is that not only may the children themselves find it difficult to grasp subjects taught in English, but their Chinese teachers too might often lack fluency in the language, however fluent their grasp of their own subject.

On the other hand, English is the lingua franca of business. One has to look no further than the classified job advertisements in local papers to discover that English is essential to Chinese youngsters looking for a good career.

Where pupils, and their parents, have a chance to vote with their feet at tertiary level, they choose English as the language of learning. Hong Kong has two universites, one English and one Chinese. Competition for places at the English university is far more fierce, and at a secondary level, the minority of students holding examination certificates won in Cantonese will find potential employers viewing them less favourably than certificates won in English.

The language issue is the most pressing question facing educationalists in Hong Kong at the moment, and it remains to be seen how persuasive the OECD experts' report proves to be at the primary level. But at the secondary level, too, there are factors which might make an expatriate English teacher wonder more than a little. Many classrooms have a near-Victorian atmosphere of rote-learning, no discussion, little creative writing and rigorously prescriptive syllabus.

Sometimes an obscure syllabus, too. What do Chinese 15-year-olds make of Bismarck's foreign policy, or of Henry VIII's marital difficulties? But the style of teaching is evoked by this extract from the staff regulations on one secondary school.

"Teachers should always teach in standing position. Blackboard writing must be neat and orderly and should always be begun from top to bottom. Teachers must closely follow the syllabus set out by the school for every subject. Teachers should always appear in attire befitting a teacher and avoid all gaudy outfits."

Teachers may also, for good measure, in many cases have to keep their cool in non-airconditioned classrooms thick with tropical humidity while addressing classes of 45 or more with the aid of a public address system to reach pupils at the back.

But carping at the limitations of Hong Kong's education system should not obscure recognition of the problems with which it has to deal. A quarter of the five million-strong population is under 15. All of Hong Kong's public services have had to cope with waves of unplanned immigration, and education is budgeted this year to absorb HK$4.8bn, or almost 15 per cent of total expenditure.

In sharp contrast to Britain, the demand and respect for education among young and old people in Hong Kong is seemingly inexhaustible. The exam months of May and June find teenagers everywhere desperately searching for quiet places to study away from their crowded flats with no chance of privacy—the eager learners can be found then in the air-conditioned lounge of Kaitak airport, or in doorways at the back of City Hall.

In Britain, poverty, overcrowding and the pressures of inner city living are frequently given as reasons for the failure of both pupils and the education system. In Hong Kong, the reverse attitude prevails. It is especially among the squatters of Kwun Tong and other shack-dwellers that education is most to be cherished, as a passport to a standard of living.

*The author is a teacher in Hong Kong.*

WHERE THEY GO

| | 1971 % | 1981 % |
|---|---|---|
| No schooling/kindergarten | 21.0 | 15.5 |
| Primary | 53.0 | 39.8 |
| Secondary / matriculation | 22.9 | 39.2 |
| Post-secondary / university | 3.1 | 5.5 |
| Total | 100.0 | 100.0 |

*With a quarter of Hong Kong's five million population under 15, the demand for jobs for youngsters is high. Above: girls assembling computer printed boards at the Ampex Ferrotec factory*

# Census records growing wealth

POPULATION

CHRISTOPHER WOOD

HONG KONG'S particular blend of individual endeavour and communal self-discipline continues to prosper, according to the results of the 1981 census. The census—conducted every ten years—shows a picture of growing affluence, with real incomes rising rapidly, smaller households and higher educational standards among a recorded population of 5.11m.

Of those 5.11m, 98 per cent are Chinese, while other ethnic groups include 26,000 British, 12,000 Indians and Pakistanis, and 29,000 people from other South-East Asian countries.

Hong Kong's reputation for hard work is reflected in census labour force statistics. No less than 70.9 per cent of Hong Kong people between 15 and 64 are members of the labour force, comparing favourably with Japan (68 per cent) and Singapore (64 per cent), both of which are also often cited as shining examples of the work ethic in action.

Hong Kong differs from its regional neighbours in having no centralised coercion to work, contrasting with the institutionalisation of the work ethic into the Japanese corporate system with its tradition of lifetime employment and Singapore's Lee Kwan Yu, alarmed by the by-products of Western affluence, is urging his people too to follow the Japanese model.

The Hong Kong folk-heroes are the rags-to-riches men, self-starters who provide the example to inspire others. The emphasis is on the individual and the family, with the Government having a contingent rather than a guiding role in the creation of wealth.

As to that creation of wealth, real per household incomes in Hong Kong rose by 85 per cent between 1971 and 1981, an average yearly rise of 6.3 per cent, despite the need to find 850,000 new jobs for fresh immigrants from China.

Educationally, standards improved, too with primary education plus three years of secondary education now free and compulsory, 42 per cent of the 1981 population had secondary education against 28.5 per cent in 1971. For the 16 to 17 age group, Hong Kong now has 61 per cent in full-time education compared with 46 per cent in Britain. The trend continues through the 18 to 20 age group, where Hong Kong's 23 per cent compares with Britain's 16 per cent.

These figures represent not only the impact of Hong Kong Government programmes but also the importance placed by Hong Kong people on educational standards. The pressures on children can become unbearable, particularly in the exam season which each year generates its student suicides.

A bottleneck exists at the tertiary level, where Hong Kong's two universities and one polytechnic cannot meet the aspirations of local career-minded young people. Hence only 2.7 per cent of Hong Kong's population has received a university education, half the proportion for Singapore. In these circumstances, those who cannot make the grade look abroad—a practical necessity contributing to the dismay caused by the British Government's insensitive policy on overseas student fees.

On the housing front, a perennial problem in overcrowded Hong Kong, the Government's continuing cash-backed commitment now means that 39 per cent of the population live in public housing, a tribute to the importance placed on the housing programme by departing governor Sir Murray MacLehose.

Hence, despite the continuing scar of some 500,000 squatters in ramshackle huts sold to them by sharp-minded racketeers, more people now enjoy the luxury of a home of their own. Aspirations towards ownership are being catered for by the Government's subsidised home ownership scheme.

Again reflecting the housing programme, Hong Kong's population is spreading geographically. The number of people living in the New Territories has doubled over the last 10 years to 1.3m. As the New Towns grow up, the question remains as to whether their populations, often displaced from urban areas, will adjust to their new environments or whether the vast new estates, some housing 60,000 people, will become a breeding ground for alienation. So far, however, the picture from the estates has been a positive one, with few law-and-order problems.

A key factor in making the New Towns work is transport, rivalling housing now as Hong Kong's number one problem. Getting to work can take an hour and more. The mass transit railway and the Kowloon-Canton Railway are helping to make commuting more tolerable. But despite the general recognition that Hong Kong's roads are critically crowded, a recent Government move to triple car taxes provoked heated public debate. Six members of the Legislative Council went so far as to put away their rubber stamps and vote against it.

Such dissent is peripheral and manageable. The vast majority of the people support the system and its values, even if they cannot articulate that support. After all, many of them voted with their feet by coming to Hong Kong.

Yet the past year has seen admittedly isolated civil disturbance, with a mob of youths rampaging through Central District in the early hours of Christmas morning. Their targets were the smart shops selling European de luxe goods to rich customers.

An indication, perhaps, that today's Chinese youth will be more demanding than its parents' generation? Increasingly self-confident and outspoken, Hong Kong to the young is a home rather than a refuge, and increasingly they will want some say in its future.

They have, after all, no guaranteed future in Britain. Last year's UK Nationality Act hammered home the second-class status of the citizens of Britain's dependent territories. It was widely resented in Hong Kong, as was Gibraltar's specially preferential treatment.

One final note from the 1981 census—Hong Kong is getting older. But there is no danger yet of a hardening of the arteries. The average age of the population went up by five years between 1971 and 1981—from just 21 to 26.

WHERE THEY LIVE

By area: 1981

| | Number of persons | % |
|---|---|---|
| Hong Kong Island | 1,183,621 | 23.7 |
| Kowloon | 799,123 | 16.0 |
| New Kowloon | 1,651,064 | 33.2 |
| New Territories | 1,303,005 | 26.1 |
| Marine | 49,747 | 1.0 |
| Total | 4,986,560 | 100.0 |

How the new Financial Secretary and Chief Secretary see their respective roles in the administration

PROFILE: JOHN BREMRIDGE

# Learning the rules

When John Bremridge was appointed to the post of Hong Kong's Financial Secretary last year many pundits predicted that he would be confused in his new world. After all, they argued, it was a big jump from being Taipan (or Hong Kong chief) of the house of Swire to be Financial Secretary: from the free-wheeling, and even freebooting, some said, private sector into the world of bureaucracy and red tape.

He has not found it too big a change. "I have never believed that the private sector's only duty is to maximise profits," Mr Bremridge declared. "Certainly at Swires we never operated according to such cut and dried criterion.

"At senior levels in business, assuming that you are an employee and not running your own company, like Li Ka-Shing, chairman of Cheung Kong, you tend to be a senior administrator, and I don't think that a senior administrator should be out of place in industry or in government or in academic life."

Yet he concedes that there are differences and that the newcomer from the private to the public sector can find himself in a maze. "The problem of course is that you don't know all the funny little ground rules, like the leave terms, the housing terms. There is much more of a system to play in the civil service than in the private sector."

Probably only in Hong Kong—or the U.S.—would a topflight businessman consider or be considered for a move to the main government financial job. There can hardly be a bigger contrast than between Mr Bremridge and his predecessor, Sir Philip Haddon-Cave (now Chief Secretary).

Sir Philip is almost the archetypal senior bureaucrat: clever, with the almost grey bearing of a mandarin alleviated by a dry sense of humour. Sir Philip would grace any Treasury top floor. "Sir Philip is also a very great academic economist," adds his successor.

Whereas the previous Financial Secretary always seemed self-contained Mr Bremridge looks instantly ready to burst out. He is known for his colourful turn of phrase. He is reported to have said of one of the well-known figures of Hong Kong: "I am never sure about shaking hands with him as I don't know what he has been doing. He reminds me of an undertaker with his grave manner—I'm sorry, I mean an embalmer."

His ordinary conversation is splattered with robust expletives, which is something of a surprise because in many aspects Mr Bremridge is a man of puritanical rectitude.

The Financial Secretary says that in one important respect a basic rule of behaviour has not changed. "When I was at Swire a guide to my decision-making was how would I react if that decision was leaked to the Press: would I be embarrassed or not. As long as my conscience is clear and I would not be embarrassed, I can sleep well."

Mr Bremridge concedes that "I have a reputation for an inability to suffer fools." Besides the piles of official papers his desk is decorated with a small memento bearing the slogan "THINK." It is turned towards the visitor not towards Mr Bremridge.

The new Financial Secretary went out to Hong Kong with the Swire Group without having really sat down and planned it. Having served in the Rifle Brigade in the Middle East after the war, he read law at St John's College, Oxford. "I would have liked to have become a barrister, but did not have the money.

"In those days of the Berlin airlift, it did not look as if it would be long before we were at war again. So I went to the Appointments Board looking for a job which would allow me to travel. I looked at shipping companies because shipping would get me abroad." Swire offered him a job and it was first step to becoming Taipan as a junior working for Blue Funnel in Hong Kong.

That was 30 years and Mr Bremridge has come to have confidence in Hong Kong. The trouble is that not all of its destiny is in his hands nor even of the people of the territory. He points out: "With such a high dependence on trade Hong Kong is vulnerable if people abroad can't buy our goods because they don't have the money or if hypocritical governments bring in regulations preventing them from buying."

He says that the political facts of life are that "there are a lot of crooked politicians who are intent on screwing small countries like Hong Kong and Korea so that they can get themselves re-elected." As such, they do not respond to intelligence, logic, decency or argument. The solution for Hong Kong, like a small boy in the face of a bully, is to stay out of the way — but that is not always easy.

Within Hong Kong, too, the Financial Secretary has to live with the repercussions of policies which have allowed property owners to emerge as the new big barons of the colony. Friends say that Mr Bremridge would like to see the more unscrupulous property dealers get a taste of their own medicine, but he is constrained by the fragile nature of Hong Kong's property edifice.

One collapse could lead to a panic reaction, and damage the banks which fund the property companies. In addition, the government budget surplus is built on a healthy property market because of revenue from land sales.

The Financial Secretary has, however, been prepared to see substantial falls in land prices. Some land has been withdrawn from sale for failing to meet the reserve price, but Mr Bremridge smiles tolerantly and says that he cannot allow bargain basement prices which would allow dealers to make an instant killing.

The other major worrying factor is the rapid expansion of banks and deposit-taking companies, many of which have helped to fuel the property boom. Mr Bremridge says that part of his job is "to persuade bankers to behave like bankers and not like bloody pawnbrokers."

Not everyone, even within the bureaucracy, is an admirer of Mr Bremridge or his way of doing things. His predecessor had done the job for 10 years and was an economist so that he could keep a close eye on things and discuss the finer details of money supply. Mr Bremridge of necessity has to take a broader view and to delegate more.

Critics say that he is out of his depth and is blundering around. Bt they may fail to take account of the fact that Hong Kong no longer faces such an equable or equitable world climate. In a society like Hong Kong, the Financial Secretary has no magic strings to pull to put things right, nor would he want to try.

John Bremridge: a move from the private to the public sector

PROFILE: SIR PHILIP HADDON-CAVE

# Positive stance on passivity

Sir Philip Haddon-Cave was appointed Chief Secretary of Hong Kong last year in succession to Sir Jack Cater. Formerly Financial Secretary for ten years, Sir Philip is the architect of the economic policy which he came to call "positive non-interventionism," as distinct from the "laissez-faire" tag often loosely applied to Hong Kong.

Laissez-faire, said Sir Philip, implied a misleading passivity on the part of government, which in fact had a valuable supporting role to play. As Chief Secretary, Sir Philip is deputy to the Governor, and head of the civil service. He was born in Tasmania and was educated at university there and at King's College, Cambridge. After two years as an economics lecturer at Melbourne University, he joined the colonial service in 1951 and served in Kenya and the Seychelles before joining the Hong Kong Government in 1962.

Sir Philip Haddon-Cave, deputy to the Governor

**The Kwai Chung container terminal is hard-pressed for space and the airport at Kaitak may be stretched by the end of the decade**

# Pressure on two fronts

HONG KONG'S Kwai Chung container terminal, on the northwest edge of Kowloon, is the third largest container port in the world, surpassed only by New York and Rotterdam. Like all commercial operations in Hong Kong, it is strapped for space in which to manoeuvre. Container operators continue to pressure the Government to authorise reclamation of land for more berths.

However, despite predictions that Kwai Chung was approaching critical over-crowding, it has continued to operate relatively smoothly. An important contributory reason is the slowdown in domestic exports growth from Hong Kong this year. While the Government's February Budget forecast was for 7 per cent real growth, operators at Kwai Chung are slicing two to three points off that in their own estimations.

Another factor is the changing nature of Hong Kong's exports. As industry diversifies to find its growth outside the traditional textile and garment sector, electronics, electrical and specialised engineering goods make up a growing proportion of exports, and demand proportionately less shipping space.

None the less, when demand particularly in the important U.S. market picks up, so will the pressure on Kwai Chung and the need for operators to streamline operations still further.

As an example of just how pressured Kwai Chung already is, take the case of one of its major operators, Modern Terminals Limited (MTL), which last year wanted to fit two large container cranes on to its berths to facilitate loading. MTL found it more cost-effective to have the two units constructed at a factory in Japan and then towed by sea in their completed state to Kwai Chung. MTL reckoned that it could not afford the down-time needed on its container handling berth to construct the cranes on-site.

Sealand, another operator, has gone into partnership with local group Far East consortium to build a multi-storey container station on its site to maximise usage of the available ground-space. As to providing the additional space which Kwai Chung as a whole will one day need, operators entered joint talks with the Government last year on the reclamation of 13 hectares of land near the existing numbers three and four berths. Talks on these and other plans continue.

**PORT AND AIRPORT**
PETER GILL

The aspect of Kwai Chung's business most vulnerable to crowding-out is transhipment cargoes. At present transhipment volumes account for almost half the containers handled through Hong Kong. But this traffic could be reduced drastically if congestion made it in practice easier for another ship to call elsewhere rather than tranship at Hong Kong.

This potential problem is compounded by moves by countries in the South-east Asian region to boost the market shares of their national carriers. The Philippines and Indonesia are examples of countries which have moved locally to protect their own national lines.

In port facilities, as in every other aspect of its everyday life, Hong Kong must weigh China heavily in its balance of thinking. Shipping companies believe that the Chinese will have to use Hong Kong's facilities for container traffic in the foreseeable future. China has few deep water ports of its own. Even Shanghai, perhaps the key centre for future Chinese container traffic, can take ships only of up to 28-foot draught.

Undoubtedly, China will have to spend money beefing up its handling capacity and developing its own harbours. But a choice must be made between bulk commodity handling facilities and container traffic. Given the needs of the moment, particularly for grain, available Chinese money is far more likely to be spent on bulk handling facilities. This would leave Kwai Chung with the long-term responsibility for moving China's large container cargoes, such as textiles and foodstuffs.

In summary, then, Hong Kong's container facilities will need long-term expansion, but it may be a longer-term than might have earlier been anticipated. It may be confidently expected that the Government will be keeping a close eye on Kwai Chung's problems. The economic consequences of clogging up Hong Kong's most important export outlet would be severe. While Kwai Chung's potential for bottlenecking is keenly perceived.

The Government is taking a cooler view of the need to replace its existing airport at Kaitak. Arrivals and departures at Kaitak have increased by 10 per cent over the last six years, reaching a total last year of 55,393m. Passenger handling capacity may be reached by the end of the decade.

The increase is a tribute to Kaitak's flight controllers, since

CONTINUED ON NEXT PAGE

PROFILE: JAYSON MUGAR

# Seeking an east-west blend

JAYSON MUGAR of the Chartered Bank sees business with China as being a bit like a game of snakes and ladders. "Experienced bankers know how to get round the snakes and look for the ladders," he says.

Mr Mugar is guardedly optimistic about prospects for the growth of western banks' business with China based on what he describes as the return of the rule of law and financial disciplines.

"They're systematic now which is important," he says. "Where it breaks down is when it gets down into cells and sub-cells. Lower level officials don't have the vigour to charge ahead . . . bankers find that when we get outside the mainstream there is a rigidity in thinking."

Mr Mugar heads the Chartered Bank's China section whose job it is to monitor business developments in China and identify areas of promise. With Chinese economic priorities in a state of flux most of the time this is not an easy task.

"This whole business for bankers is a very sophisticated, specialised art," he says. "You can constantly do this business and not get anywhere. The premium on personal relationships is more evident than in any other market."

Mr Mugar says that bankers dealing with China face two main problems: one is how to develop a relationship of trust with Chinese officials, and the other is knowing how to identify opportunities in a constantly changing market.

Jayson Mugar: Western disciplines with Chinese methodologies

"As far as bankers are concerned dealing with this environment, opportunities are there," he says. "It's just a question of how you structure them.

"I'm a great advocate of structuring business deals that blend Western disciplines with Chinese methodologies. You cannot impose classical forms of banking on the Chinese. Nor can you take the Chinese version and impose it on Western systems. It's just not a fit, so you have to build hybrid models."

Mr Mugar instances compensation trade and co-production agreements as an example of what he is talking about. These are schemes whereby the foreign partner supplies either machinery or raw materials or both in return for the finished product, which is exported.

Some big western banks such as Chase Manhattan and Citibank are now setting up special counter-trade departments, according to Mr Mugar, to handle this sort of business, and some banks are even becoming principals in trading finished products.

The Chartered Bank has yet to set up its own counter-trade department, but Mr Mugar hints that it is moving in that direction. He says that banks that are going to be successful in China must be "innovative, must have a good China section and must have an ability to introduce clients to China."

Among the difficulties bankers and businessmen encounter in dealing with China are: problems of bureaucratic inertia, the difficulty of actually making contact with those in the Chinese bureaucracy who are the decision makers and what Mr Mugar describes as "extended misinformation" about interest rates.

Mr Mugar says that at lower levels of the bureaucracy and in the provinces there is a belief that cheap interest rates are freely available so it has to be patiently pointed out that this is not the case.



هكذا من الأصول

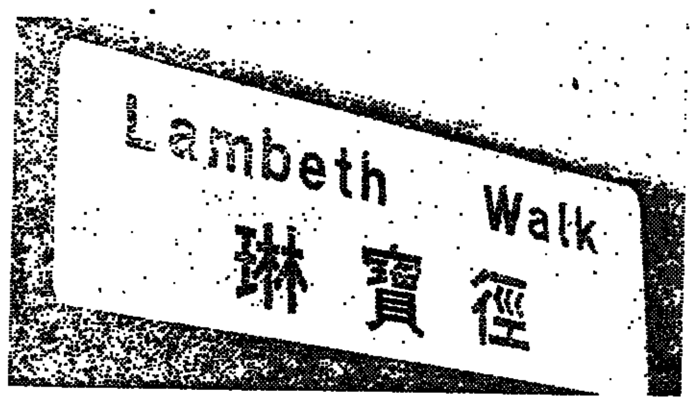
Colourful stalls and the fish market

| | | | | | | |
|---|---|---|---|---|---|---|
| **TOURISM** | | | | | | |
| Incoming visitors | | | | | | |
| Year | Japan | U.S. | Taiwan | Australia | Others | Total |
| 1977 | 485,495 | 254,186 | 87,488 | 154,849 | 773,651 | 1,755,669 |
| 1978 | 487,250 | 284,642 | 128,924 | 160,004 | 993,919 | 2,054,739 |
| 1979 | 508,011 | 303,583 | 206,344 | 139,236 | 1,056,035 | 2,213,209 |
| 1980 | 472,182 | 346,910 | 123,644 | 166,170 | 1,192,567 | 2,301,473 |
| 1981 | 507,960 | 372,133 | 135,621 | 201,793 | 1,317,696 | 2,535,203 |

**CLIMATE**

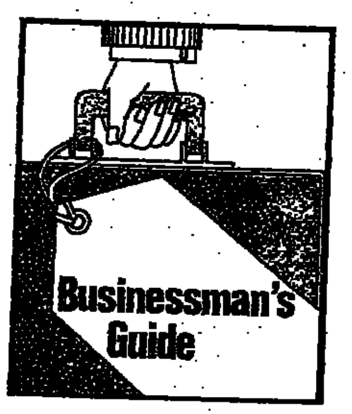
| | Mean temperature °C | Mean relative humidity % | Total rainfall mm |
|---|---|---|---|
| January | 16.3 | 67 | Trace |
| February | 17.6 | 80 | 11.8 |
| March | 20.6 | 82 | 123.9 |
| April | 24.2 | 84 | 94.2 |
| May | 25.2 | 81 | 336.1 |
| June | 26.9 | 80 | 106.4 |
| July | 28.4 | 80 | 317.2 |
| August | 29.1 | 79 | 101.2 |
| September | 27.2 | 81 | 381.9 |
| October | 24.8 | 76 | 111.6 |
| November | 20.3 | 74 | 69.8 |
| December | 16.4 | 60 | 5.4 |


The American fast-food revolution has caught up with the Chinese in Hong Kong. Below: street signs with a London flavour




# How to get about, where to eat and how to dress

By Robert Cottrell




**BASIC GEOGRAPHY:** Urban Hong Kong divides into two sections—Hong Kong Island itself, and Kowloon across the harbour on the mainland. The distinction is abbreviated conversationally to "Hong Kong side" and "Kowloon side." On the north shore of Hong Kong Island are the main business districts, Central, and the nightclub district of Wanchai.

The big tourist hotels and shopping centres are on the southern tip of Kowloon, in the district called Tsim Sha Tsui, pronounced "Sim Shah Choy." On the south side of Hong Kong Island are the resort towns of Stanley and Repulse Bay. North of Kowloon on the mainland are the New Territories, once agricultural now developed for industrial and new town residential use.

**GETTING ABOUT:** Hong Kong's airport is located at Kaitak on Kowloon side. A taxi from Kaitak to Central district will cost around HK$35, including a HK$10 supplement for using the cross-harbour road tunnel which connects the Island with Kowloon. The major hotels also offer their own limousine services from Kaitak.

Hong Kong's red-and-silver metred taxis are cheap, honest, and generally the best bet for local travel. Many drivers speak limited English, though, so if you have an off-the-beaten track destination try to get it written out in Chinese characters first. Be prepared also for widespread traffic congestion, and a shortage of taxis at peak times, particularly lunchtime in Central. The best place to find them then is at the big hotel ranks.

For the short hop between the Central district and Tsim Sha Tsui, use the frequent Star ferry service or try the fast and clean MTR underground railway, which connects Central with Tsim Sha Tsui, and then branches into two lines running further into Kowloon.

**HOTELS:** For Central district, the best hotels are the Mandarin—still the most prestigious hotel in Hong Kong—and the Hilton. Both are located in the heart of Central. On Kowloon side are the stately Peninsula Hotel, and the plush new Regent. Sadly, the Repulse Bay Hotel, long favoured by those seeking a quieter location on Hong Kong Island, is now set for demolition. Mandarin Hotel, tel. 5-224466 (reservations). Hilton Hotel, tel. 5-233111. Peninsula Hotel, tel. 3-666251. Regent Hotel, tel. 3-7211211.

**RESTAURANTS:** For business entertaining in Central district, both the Mandarin and the Hilton have grill rooms offering good food and prompt service. Two other good restaurants in Central are the famous Jimmy's Kitchen, South China Building, Wyndham Street (tel. 5-265293). Book at least a day ahead, and the Marinushka, a pleasant Mediterranean restaurant—though avoid the less smart upstairs—at 6, on Lan Street, tel. 5-240165.

For recreational eating, try the Codown restaurant in Sutherland House, Central District, which has jazz and dance music in the evenings, tel. 5-221608. Or for a magnificent view of Hong Kong over the harbour, with pricey French food and fussy service, the Plume. Restaurants mentioned so far specialise in Western food.

Hong Kong also offers some of the best and most varied Chinese food in the world—not just the Cantonese cuisine found in most Western Chinese restaurants, but also Shanghainese, Pekinese, Fukkienese, Sichuan, Chiu Chow and other regional cuisines. As a general rule, most Chinese Restaurants in Hong Kong offer good food and value-for-money.

If you don't have time to search around, plunge straight in the nearest and allow yourself to be guided by the waiter. Not too much guidance, however, or you are liable to end up with sweet-and-sour pork, chop suey and other run-of-the-mill dishes which the Chinese assume Western palates will favour. Go in a group, and share dishes between you mixing meat, fish, vegetables and noodles or rice. Cantonese food is light mild, Sischuan food heavier and spicy. Cantonese food will usually be supported with rice, where Northern cuisines—Shanghainese, Pekinese, will favour breads and noodles.

For a gentle introduction to regional Chinese food in Central district, try the Peking Garden in Alexandra House, telephone 5-266456; and the Sichuan Garden in Gloucester Tower, Landmark Centre, telephone 5-214433. Both are spacious and comfortable, with bookable private rooms and helpful English-speaking service.

**BUSINESS PROTOCOL:** A large supply of business cards is a must—they will be exchanged with almost Japanese fervour. Despite the tropical climate, air-conditioned offices mean business dress remains formal—grey pinstripes are better than safari suits, even when humidity stands at 95 per cent. The business day is long—8.30 to 6 for many executives—and Saturday morning working is normal.

**RECREATION:** Hong Kong's most popular relaxation is messing about on boats, be they junks, yachts or windsurfers. Yellow pages or your hotel reception is the place to turn for advice on hiring boats, but better still get yourself invited out on somebody else's. Horse-racing at Shatin and Happy Valley is another popular recreation, except in the out-of-season high summer months. The Royal Hong Kong Jockey Club offers tourist memberships, but only on production of a passport showing an entry visa less than two weeks old.

# Pressure on two fronts

CONTINUED FROM PREVIOUS PAGE

the airport has just one runway, extending 11,000 feet on reclaimed land out into the sea off Kowloon. But the cost of replacing Kaitak would be formidable. A basic estimate of perhaps HK$7bn could be increased several times depending on how many of the support facilities were counted in as the cost of the airport itself.

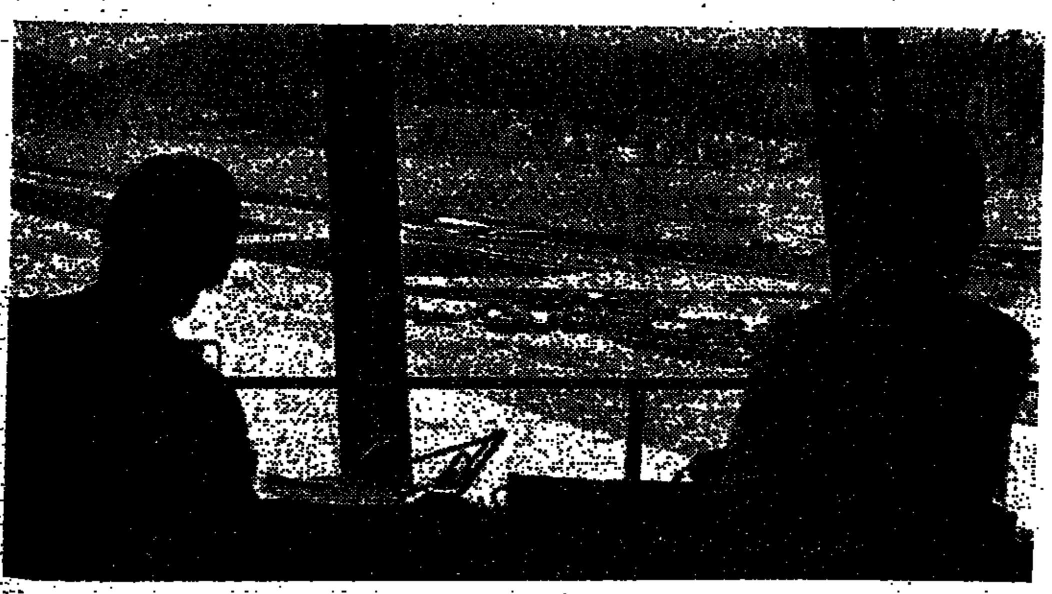
Suggestions have been made for a new airport, studies carried out and sites pinpointed. Out of some 13 original putative locations, the most likely now looks to be Shep Lap Kok on the north side of Lantau Island. The site is about 20km from Central district, and is as it now stands a rather sleepy island linked by ferry from Hong Kong.

Just building a couple of runways at Shep Lap Kok would do little to help Hong Kong's air communications. Not only would on-site support facilities be required, but also fast direct access to Kowloon.

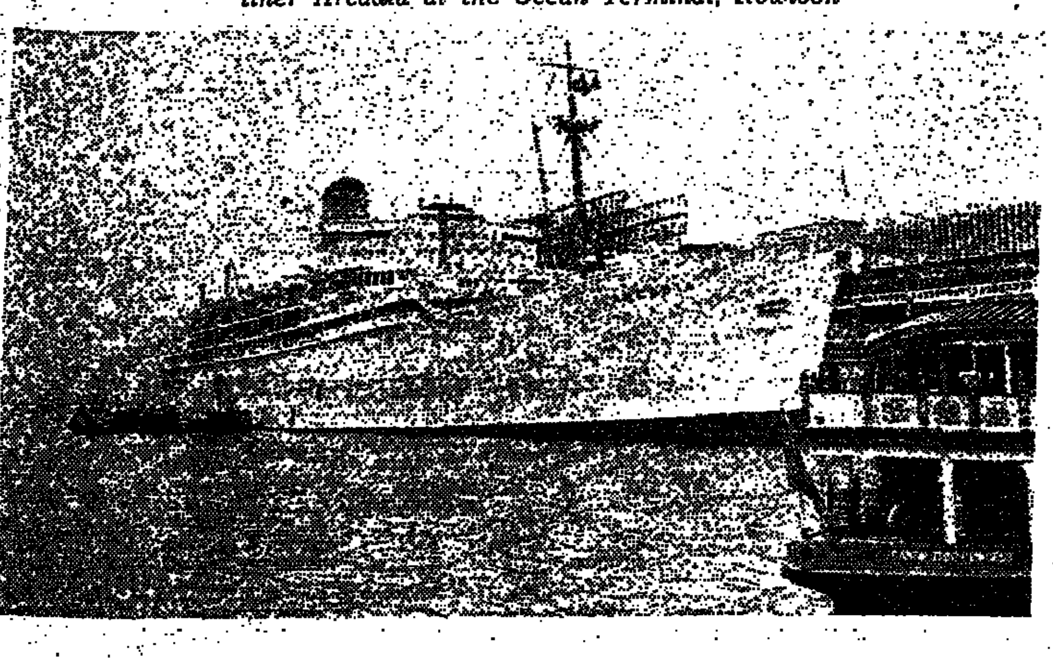
The best way of providing that access is reckoned to be a bridge across the bay from Lantau, linked to a network of new feeder roads in West Kowloon. Included in other supporting engineering work which would be called for to develop Shep Lap Kok, would be a large programme of land reclamation.

Given the cost and difficulties of the best alternative, perhaps a mere extension of Kaitak might be tried but Kaitak is in the heart of urban Hong Kong, and noisy dangerous aeroplanes are not generally to be encouraged in city centres. Moreover, Kaitak would provide valuable central real estate if it could be freed for development.

The Chinese consideration for Hong Kong's airport planners is the possibility of an airport over the border in the special economic zone of Shenzhen. The tourist industry, however, seems to enjoy using Hong Kong as its stepping-stone into China, and the Chinese themselves encourage this scheme with some of their own tour plans.



Air traffic control at the international Kaitak airport. Below: the P & O liner Arcadia at the Ocean Terminal, Kowloon



PERSONAL COMPUTERS

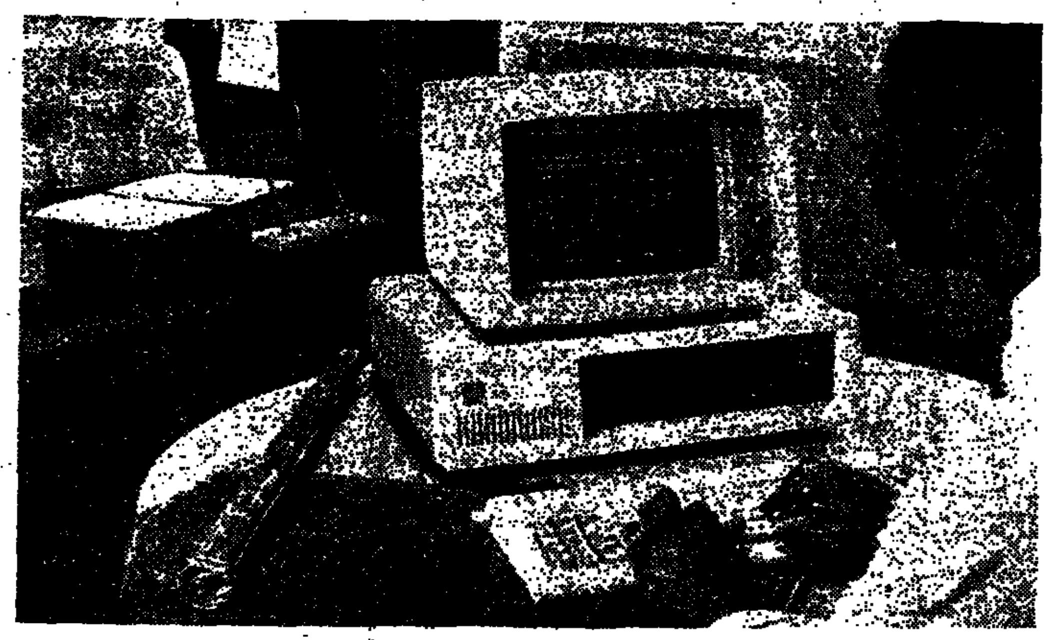
# The new electronics Klondike

By Jason Crisp in London and Louise Kehoe in California

LESS THAN five years ago personal computers were generally seen as little more than an interesting but irrelevant diversion. Today they have turned into an extraordinary business worth around $11bn worldwide with annual growth rates between 50 and 100 per cent. By the end of the decade the world market is expected to exceed $50bn.

The marketplace is beginning to resemble the Klondike. Dozens of new companies are being formed hoping to strike gold like Apple—now a $500m-a-year business started in a California garage in 1976. The business is now so fiercely competitive that no established manufacturer of computers or office equipment can risk ignoring it.

In the last nine months a host of major companies have entered the field including IBM, Digital Equipment, ICL, Olivetti, Wang, Systime, Sony and many others. At the recent Hanover Trade Fair there were over 100 different personal computers on show from nearly 60 manufacturers. And a flood of new products is promised before the end of the year.



IBM's Personal Computer: one of the biggest selling micros in the U.S.

The first brief years of personal computers have been dominated by three U.S. companies — Apple, Commodore and Tandy (Radio Shack) — none of which was part of the established computer industry. The entry into the market of the computer majors together with office equipment companies such as Xerox is seen as giving it a belated legitimacy.

The personal computer, costing anything between £70 and £10,000, has been transformed from a toy for videogames — or a plaything for computer buffs — into a business tool with a wide range of applications. It is widely agreed that the personal computer came of age when a program called Visicalc was written for the Apple computer.

Visicalc is an accounting program on a computer which enables a businessman to ask "what if?" type of questions. Its arrival catapulted Apple sales upwards as individuals in companies, tired of the wait and expense of doing such calculations on a large computer, bought their personal computer out of departmental budgets. Visicalc is now available on a number of personal computers. It, or one of the 20 or more look-alikes that have been written, is essential for any new personal computer if it is to succeed.

Indeed the computer software—in other words, what someone can usefully do on a computer—has become one of the key factors in the market. The computers themselves are becoming harder to differentiate. The heart of all personal computers are a small range of standard microprocessors made by the semi-conductor companies, notably Intel, Motorola and Zilog.

Two engineers in a shed are now perfectly capable of putting together a computer which could compete with IBM's "Personal Computer" on performance. (They would not, of course, have IBM's massive economies of scale.) The fall in prices in personal computers has been because the semi-conductor manufacturers have been able to cram ever more components onto a microchip.

The computers themselves fall into two broad types, based around two generations of microprocessor chips, the 8-bit and 16-bit. The latter is several times more powerful and is fast becoming the standard requirement for business uses while the 8-bit machines are more than adequate for use at home.

Most of the machines that have been sold, both for business and home use, are 8-bit computers. But the majority of the recently launched products including those from DEC, IBM, Olivetti, Hitachi and Nippon Electric—and the small but high-flying U.S. companies like Sirius, Fortune, Convergent Technology and Altos—are all 16-bit. Apple is one of the few remaining major suppliers not offering a 16-bit machine. There is a growing trend to dual processor machines incorporating 8- and 16-bit chips which can use a wider range of software.

The U.S. market is substantially ahead of that of Europe. It also differs because home computers, selling for around $200 to $500, have become the latest consumer electronic product for mass merchandisers. Commodore computers are now on sale in Safeway (with around 2,000 stores in the U.S.) which, as a major outlet for Timex, is also expected to sell Clive Sinclair's new computer, the Spectrum.

A number of the major department stores carry the product range of one or more of the companies. The most successful home computers in the U.S. come from Texas Instruments, Atari and Commodore. Tandy's $200 "Colour computer" is available through Radio Shack, its nationwide consumer electronics stores—by far the most extensive of any U.S. manufacturer.

These American home computers are mainly used for games. Plug-in video game programs are popular, but the computer also has a keyboard and extra programs which enable it to be used for word-processing, home management and education. The use of computers for sophisticated videogames contrasts with earlier predictions that they would be mainly used in the home for controlling electrical appliances, house-keeping and energy management.

So far in Europe, the greater part of the personal computer sales are to businesses. Home computers in Europe seem to be used more for educational reasons than in the U.S. Clive Sinclair attributes much of the success of the best selling personal computer of all — his ZX81 — to people buying them just to learn about computing.

Schools are also stimulating interest in computer education and they are becoming one of the fastest growth areas both sides of the Atlantic. In the UK, France and Germany there are now plans to ensure every secondary school has at least one computer. In the U.S. schools which were typically buying two a year are now buying four or five.

Yet business buyers are still the largest element in both the U.S. and European markets. In the U.S., Tandy leads the business market closely pursued by Apple and IBM. The largest sector is sales to small businesses. DEC, the minicomputer company that has risen to be the world's second largest computer manufacturer has just announced the launch of three micro-computers with very low prices. It is expected to become a major force.

Small businesses use the computers to run their organisation's accounts, billings, payroll. They are often used as word processors. In Europe there are slightly more microcomputers in large organisations, where they are used in general accounting, than in small businesses.

The greatest growth area in business is, literally as a personal computer. Inteco, the market research organisation, estimates the number of personal microcomputers in large companies in Europe will rise from 20,000 in 1980 to 880,000 in 1985, over three times the number in small businesses.

In a study of how people in large organisations used their personal computer it found one-third using them for 'what if' questions on Visicalc type of products. Nearly 20 per cent used them for various administrative purposes and 8 per cent as an intelligent terminal for a larger computer.

Inteco found 7 per cent used them for stock control, 7-8 per cent for education and evaluation, 4 per cent as a "super calculator" and a wide range of other applications such as estimating, computer aided design and quality control programmes.

The extraordinary proliferation of computers and companies is prompting debate about how long it will be before there must be a major shakeout.

The crucial factors now are: the availability of a wide range of software, distribution, service, and even the quality of the instruction manuals.

Ian Galbraith at Mackintosh Consultants points out there is tremendous difficulty in determining the most cost-effective route to sell personal computers. The options are enormous. At a retail level there are specialist computer shops, general department stores and company owned shops such as those set up by IBM, Xerox and DEC.

Second, there are computer centres set up by the manufacturers. Potential buyers are persuaded to visit them through seminars, mail shots, telephone selling and so on and they can try the computers. Third is through the traditional office equipment channel of dealers and agents and, fourth, there is direct selling to large companies for bulk orders.

Poor distribution channels is one reason why so far the Japanese challenge has been less than feared.

WORLD MARKET FOR PERSONAL COMPUTERS ($bn)

| | 1982 | 1987 (forecast) |
|---|---|---|
| Education | 1.2 | 3.5 |
| Individual and scientific | 1.4 | 4.0 |
| Small business | 3.4 | 12.1 |
| Large business | 3.0 | 13.3 |
| Home and hobby | 1.9 | 3.8 |

*Source: Strategic International, San Jose, California*

But Japanese companies have recently announced a host of new personal computers. They include NEC, with a new 16-bit machine, Hitachi, Sony, Panasonic, Cybernet and C. Itoh.

Although the direct threat of Japanese competition in personal computers is not seen as great as in other consumer electronics areas the country is still going to do very well out of the boom. Practically all the video displays and many of the magnetic disc memories and printers in personal computers are made in Japan.

The Japanese have also been specialising in hand-held computers which have very small liquid crystal displays and tiny printers. The field for portable computers has been led by Osborne, a fast growing U.S. company founded by British-born Adam Osborne.

The personal computer market is changing almost by the day and no wise analyst would predict how it will develop. But it certainly is a strong contender for the title of "Fastest Growth Industry ever."

## Lombard

# Police and the community

By Ian Davidson

ONE OF the most important recommendations of Lord Scarman's report on the Brixton disorders, published last November was that chief constables and police authorities should be required to set up machinery for consultation between the police and the community at district or divisional level. In Lord Scarman's view—and his was only an eloquent and forceful restatement of traditional doctrine on policing in Britain—civilised and effective policing can only be carried on with the consent of the community; the riots in Brixton and elsewhere had shown how far that consent had in some places been alienated; energetic steps must be taken to restore relations between the police and the community by, among other things, regular consultation procedures at the grass roots.

The consultation guidelines which have now been circulated by the Home Office go a long way to meeting Lord Scarman's recommendations. I am not sure that they go quite far enough, but I shall come back to that later.

First the plus points. All police authorities in the country, and all borough and district councils in the Metropolitan Police district in London, will now be expected to set up local consultation machinery, very much along the Scarman lines; but the way they comply with this recommendation is left pretty much to them.

The Home Office does not prescribe the size of composition of local committees; but it does make suggestions of the kinds of agencies that might be represented, such as probation, education, social services and recreation, as well as locally elected representatives. Nor does it prescribe the agenda for meetings; but it does list some suggestions—issues of local concern, promotion of crime prevention, fostering links with local beat officers.

The reasons for this apparent vagueness are threefold. In the first place, circumstances vary, and the kind of elaborate and formal consultation which might be desirable in Toxteth could well represent overkill in the Fens of East Anglia. Secondly, quite a lot of police forces already have local consultation machinery, or have been improving it since the Scarman report came out, and it would be gratuitous to force them into a differently shaped bed of Procrustes. Thirdly, some chief constables and some police authorities are resistant to the idea of local consultation, for fear that it might undermine their own authority.

The foot-draggers will not be able simply to ignore the circular, nor to manipulate local committees so that they are ineffective. In London, for example, the borough committees will have to report on their meetings to the Commissioner, and will be entitled to raise matters with the Home Secretary; and in general the Home Secretary "will wish to satisfy himself" that appropriate arrangements have been made.

In an exercise designed to promote generalised cooperation and goodwill, some ambiguity is perhaps unavoidable; but on two issues the Home Office has, in its desire not to offend the police, carried ambiguity to the point of confusion. It suggests that committees should discuss policing responses to crime problems which may affect relations with the community; but it then says firmly that the method and timing of police operations are matters for chief constables.

Such a blanket exclusion would rule out any discussion of a repeat performance of last year's Swamp 81 in Brixton: if so, the consultation process would be meaningless.

Secondly, the committees are invited to discuss general complaints about the police, but they may not discuss particular complaints; but how on earth will they do the former, unless they have ready access to the latter?

Finally, why has the Home Office not undertaken to make local consultation a statutory obligation? It could easily be incorporated into the Police Bill next parliamentary session, which will reform the complaints procedure, and it could be quite simple: "Police authorities and chief constables shall satisfy the Home Secretary that they have established appropriate consultation procedures at local or divisional level."

# Letters to the Editor

## The closed shop: efficiency and trade union power

*From the Director General Institute of Directors.*

Sir,—John Lloyd's thoughtful article (June 14) on the closed shop ("The wrong issue for Mr Tebbit") was disturbing in two respects. It failed to deal adequately with the effects of the closed shop on efficiency, and it understated the effects on trade union power.

In campaigning for legislative action on the closed shop and in warmly welcoming the measures contained in the Employment Bill, this institute has been very conscious of the potential effects of closed shops on companies' efficiency. We believe that closed shops, irrespective of the particular forms they may take, can: a) delay the introduction of new technology, aimed at improving performance, profitability and competitiveness, if the proposed changes alter the nature of skill requirements, and thus the delineation of classes of employee; b) obstruct the removal of restrictive practices; because this may be seen as blurring the distinction between classes of employee, in respect of which separate closed shop agreements may apply; c) undermine effective management, partly because disciplinary powers may be transferred from management to shop stewards and partly also because managers may tend to lose touch with their employees and look instead to the single channel of communication provided by their shop stewards; and d) hinder changes which may be sought to the structure of bargaining arrangements.

John Lloyd tends to discount the efficiency arguments on the basis of the findings of the unfinished and unpublished Gennard study. He states that the study has found that only 12 per cent of managers surveyed regarded closed shops as leading to inefficiencies. Any test of the effect of closed shops on efficiency can only be valid if in-depth research is conducted company by company, so that the wide variations in types of closed shop and company structure can be taken into account. It is highly questionable whether a test of the opinion of personnel managers (to which the Gennard study has been confined) is a sufficient indication of the general view of management. In the institute's experience, the views of personnel managers on certain labour relations matters tend to differ markedly from those of their other management colleagues.

The second disturbing aspect of the article was the suggestion that managers seemed to regard the increased bargaining power which closed shops give to trade unions as part of the normal give and take of industrial life. Whether or not this is the case, it is my conviction that the increased power enjoyed by trade unions through closed shops has allowed them to extract excessive and unearned wage increases, and has prevented sufficiently quick adaptation to change. Some of our fast declining traditional industries provide sorry examples of the outcome of these events. The problem is even worse in some parts of the public sector, where there is not only a monopoly of the product or service, but also a labour monopoly in the shape of a closed shop. In such circumstances, there is no pressure on unions to constrain wage demands, because there is no competition to fear, nor is it likely that a strike would receive less than overwhelming support.

As far as boards of directors are concerned, past consultations with our members supports the view that most consider. Mr Tebbit has rightly selected the closed shop as an issue of major importance in the Employment Bill.

Walter Goldsmith,
*116, Pall Mall, SW1.*

## A cause of inflation

*From Dr R. Pool*

Sir,—The recent European monetary system re-alignment draws attention to the link between green currencies (to common agricultural policy agricultural exchange rates) and inflation.

Britain, in the 1970s, led the way in preventing the effects of profligate spending, leading to devaluations, showing up in food prices. The French are doing the same. The argument is that some artificial restraint of food prices is necessary to check inflation. Actually, it serves to disguise from the population at large one of the most direct, and obvious, consequences of its own inflationary actions.

Similarly, in UK now we have artificially high food prices, resulting from a "green" rate in line with a view of the value of sterling not shared by the market or enjoyed by any other industry. This denies consumers —all of us—one direct reward we should expect from a realistic monetary policy—lower food prices.

Divergencies, becoming more common, between "green" and market exchange rates, besides being prohibited by the Rome Treaty, are I suggest, a cause of, not a cure for, inflation.

(Dr) R. A. H. Pool,
*Higher Trayne,*
*Ilfracombe, Devon.*

## A great-hearted lady

*From the Director, Central Asian Research Centre*

Sir,—While the Falklands expedition was still under way, one of your contributors (Lombard, May 13) drew for us a gloomy omen from the Athenians' disastrous expedition to Sicily, and from the cautionary words of Thucydides about the likely fate of great armadas far from home. May one now rehabilitate the great historian by recalling that it was Thucydides who made his own hero Pericles say: "If the alternative should come between submission with loss of independence, and danger with the hope of preserving that independence, then it is he who will not accept the risk that deserves the blame, not he that will accept it."

But perhaps it is Aeschylus who will best restore our faith in the ability of the Greeks to find a word for it—or rather, in this case, to find a word for her. Please read in "Agamemnon," about the manly qualities of a certain great-hearted lady —spoken by her watchman, up on the roof, peering for the beacon flame that will signal the fall of Troy, and the expedition's victory. But of course that was legend — not history at all.

David Morison.
Central Asian Research Centre,
*8 Wakley Street, EC1.*

## Abolition of maintenance

*From Mr P. Berry*

Sir,—Mr J. Eedle (June 5) is obviously not aware that the matriarchal society he considers such a practical solution to the he who will not accept the risk that deserves the blame, not difficulties posed by a high divorce rate loss is already with us, at least so far as divorced persons are concerned.

Under the present divorce law, the right of an ex-wife to maintenance is an asset which is frequently "horsetraded" for the husband's share of the matrimonial home.

Alternatively, if a maintenance order is deemed necessary by the court, the wife may be awarded the husband's share of the matrimonial home by way of compensation for loss of pension rights.

Either way, the husband is rendered homeless and is deprived of his capital and often re-marries to provide himself with housing of a reasonable standard.

Having carefully read your report of May 24 I find no reference to the substitution of a single financial settlement for maintenance and I can only conclude that Mr Eedle has totally failed to appreciate the aims of the pressure group. Indeed, on the basis described in your report, the Campaign for Justice in Divorce is seeking the abolition of maintenance, as a result of which capital settlements in lieu would no longer be available to, and enforceable by, ex-wives.

Even limited experience of the divorce law demonstrates that there is no cause to doubt the numeracy and economic sense of women.

P. Berry.
*46 Market Street,*
*Chapel-en-le-Frith,*
*Derbyshire.*

## Accounting for deflation

*From Mr M. Fielding,*

Sir,—But for the high level of inflation during the past 10-15 years, it is doubtful that the concept of current cost accounting would even have been much aired in this country.

One thing I would like the proponents of CCA to explain is whether or not their proposals will cope with deflation as well as they believe they will for inflation. Surely it is not wise to assume that inflation as we now know it is here for ever and a day.

Personally, I doubt the wisdom of the accounting profession's hierachy in trying to foist SSAP 16 upon commerce and industry in this country and I have every sympathy with Mr R. Michael whose letter appeared on June 15.

Michael Fielding.
*14 Cheriton Road,*
*Winchester, Hants.*

# UK COMPANY NEWS



## Bain Dawes turns in £5.56m for nine months

IN THE nine months to December 31 1981 Bain Dawes, the London insurance broker controlled by Inchcape, made pre-tax profits of £5.56m compared to £5.55m in the previous full year to March 1981.

Mr Robin Warrender, chairman, says that the change of the year end excluded the most profitable quarter for the UK broking businesses and the group's underlying rate of growth was about 25 per cent.

The change of accounting date to bring a common year-end for all operations means that apart from Bishopsgate Insurance all the UK companies including the holding company were only in for nine months while the overseas subsidiaries maintained a full 12-month contribution.

After tax and minorities net profits amounted to £2.15m (£2.34m) before extraordinary debits of £56,000 (£164,000).

Bain Dawes is paying dividends totalling £895,000 (£1,116,000). The reduction is due to the retention of profits by the Australian company and the intention to build up reserves apart from the change in the accounting period.

In his statement Mr Warrender says that UK non-marine broking activities are still largely gloomy. The recession together with the reductions in premium rating have seriously affected profit margins. "However, new business successes were notable, and these, added to higher investment income, provided some redress."

The marine and energy resources division had a successful nine months with brokerage increasing by 25 per cent. The aviation division has stemmed the substantial losses of the past although the outlook is unexciting.

In North America the group showed a higher profit and overseas non-marine business showed improvements in a number of areas.

Turning to the current year, Mr Warrender says that market conditions will remain difficult with intense competition and therefore the group must continue to look for cutbacks in overheads.

The group is also looking at areas of expansion and is currently in negotiations in the U.S. to that end.

## Aberdeen American to raise £16m

BY CARLA RAPOPORT

JUST WHEN you thought you had seen the back of all those oil exploration experts with their maps and diagrams, here comes another group. This one is called Aberdeen American Petroleum and next week, if all goes well, Aberdeen should announce plans to raise some £16m in order to drill holes in various bits of America.

The falling price of oil has reduced the flow of these kind of companies in recent months. Those who flocked to the market in better times are now showing distinctly sickly share prices. But Aberdeen and its backers, which includes Britannia Group Unit Trusts, Legal and General and County Bank, feel the time is particularly ripe to be drilling in America.

The weakness of Opec crude oil prices and the recent *stability in spot prices, Aberdeen* says, means that investment opportunities and drilling services are now cheaper than they have been for some time. It is counting on its directors, who include three ex-Shell men, to find the kinds of investments which will allow it to start paying dividends as soon as 1985.

This is fairly optimistic thinking. So far the young company has picked out 21 oil and gas prospects in the U.S., stretching from Powder River Basin, Wyoming, to the Salt Dome Basin in Texas. It is investing in these areas through six American companies, five of which are quoted.

The ratio of productive to dry wells among these companies *vary, but there is certainly no* hint from Aberdeen that any are about to strike something like a jack-pot. Rather, Aberdeen is stressing its lack of attachment to such glamour spots like the Rocky Mountains Overthrust or off-shore wells. This, plus the sorry state of the market means that Aberdeen has to pitch itself as a bargain-basement entry into this still-seductive business.

The company will be offering 15.5m shares at 110p, but the shares will be partly-paid. The investor will pay 35p on application per share, of which 25p is partial payment of the nominal amount, and 10p is payment of the premium.

These shares will carry a liability of 75p per share which the company may call. The directors *anticipate* that there will be three 25p calls yearly after the issue date of its prospectus.

The shares will be dealt under rule 163(3) as the company does not have the required profits history to apply for the USM. Its eventual aim is a full Stock Exchange listing.

The company's backers provided the £200,000 seed money to get the company off the ground and have undertaken to subscribe for a further £3.97m as part of this week's offer.

Brokers to the issue are Rowe and Pitman and Greig Middleton. County Bank is advising the company.

## Forexfund joins managed currency flood

A NEW managed currency fund called Forexfund is to be launched today by the Bermuda-based Securities Selection and headed by Charles Ranald. The initial offer will be of 1m shares at $10 each for which Stock Exchange listing is being sought.

The fund, which is an open-ended investment company, aims to provide investors with a medium through which they can invest indirectly in bank deposits and monetary instruments denominated in various currencies, to provide both capital appreciation and income.

The minimum initial subscription is for 2,000 shares and investments will be made in bank deposits, Treasury bills and other monetary instruments with no more than 90 days' maturity and denominated in U.S. dollars, sterling deutsche-marks, Swiss francs, Japanese yen and any other freely marketable currency.

There will be an initial charge not exceeding 5 per cent of the gross proceeds of the issue and a quarterly fee of 1.375 per cent per annum based on net asset value.

Drayton Montagu Portfolio Management will act as investment adviser to the managers.

During the 60s, Mr Ranald was chairman and managing director of the Castle Britannia Group of unit trusts.

### ● comment

Forexfund joins what has become a stream—or is it a flood—of funds seeking to exploit the lifting of exchange controls. This one, however, is based in Bermuda and, therefore will not be affected by reimposition of controls. With a $20,000 minimum entry fee it is clearly not designed for the small investor and its charges do not make it a bargain in this field. Nevertheless, for those who do not want the excitement or effort of self-switching currencies then the managed aspects will appeal, providing that it can perform.

### BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetable.

TODAY

Finals: British Benzol Carbonising, Chamberlain Phipps, Walker and Staff, Whitecroft.

FUTURE DATES

| | |
|---|---|
| **Interims:** | |
| Barr (A. G.) | June 28 |
| Lookers | June 22 |
| **Finals:** | |
| Barker and Dobson | June 28 |
| Estates and Agency | June 24 |
| Gresham House Estate | June 22 |
| Imperial Cont. Gas Assoc. | July 6 |
| International Timber | June 30 |
| Meyer (Montague L.) | June 30 |
| Mitchell Somers | July 13 |
| Shaw Carpets | July 12 |
| Triplex Foundries | June 24 |
| Wintrust | June 22 |

## Little change midway at Charter Trust

Investment income at the Charter Trust and Agency, investment trust, improved from £1.01m to £1.19m in the six months to May 31 1982. Other income — deposit interest and underwriting commission—was down from £36,929 to £20,385.

The interim dividend is unchanged at 0.925p net — last year's total was 3.45p. Net earnings per 25p stock unit rose from 1.45p to 1.74p, and net asset value per stock unit was 105.4p (106.9p) or 105.3p (106.8p) adjusted for full conversion of loan stock.

Valuation of investments, after deducting net current liabilities, were £44.56m (£45.17m).

## BECK & POLLITZER

Beck and Pollitzer Engineering (Midlands) has changed its name to Becks Industrial Contracts.

## British and American Film jumps to £0.32m

*Taxable profits of British & American Film Holdings* advanced from £112,607 to £321,221 for the 1981 year and an increased final dividend of 2.306p, against 1.875p, raises the net total by 0.431p to 3.306p per 5p share.

The figures were made up as to holding company profits of £200,406 (£253,689) and subsidiaries profits of £120,815, compared with a previous loss of £141,082.

Holding company tax took £51,708 (£49,955) and there were extraordinary credits of £53,957 (£30,946) being net profits from investments sold.

Stated earnings per share were 5.31p (7.276p) pre-extraordinary items.

The figures of the subsidiaries, derived principally from TV sales, were subject to a tax credit of £763 (£25,172 debit).

During the year the group took advantage of the strength of sterling to liquidate certain dollar non-interest bearing stocks and reinvested the proceeds in Government stocks. The resultant income will be reflected in the accounts for 1982.

## Jatel rises to £144,814

*Taxable profits of Jatel, the* investment holding company with interests in Indian tea companies and which is owned by Camellia Investments, moved ahead from £85,388 to £144,814 in 1981.

Earnings per £1 share are stated at 6.68p (0.62p) and the year's single dividend is being held at 4p net.

Profits after tax and extra-*ordinary items* emerged at £389,703 (£14,597).

## Shortfall at Third Mile

*After all charges including* tax, group profits of Third Mile Investment Company dropped from £124,800 to £94,273 for 1981.

A same-again final dividend has been declared of 0.875p which holds the total at 1.575p. Earnings per 25p share are given down from 4.89p to 3.27p.

Group turnover, however, moved ahead from £779,233 to £896.778. There was a charge for tax this time of £18,672, against a previous credit of £11,679.

## Raeburn ahead and boosts interim by 1p

Pre-tax revenue at Raeburn Investment Trust rose from £1.28m to £1.6m in the half-year to May 31 1982. The interim dividend is raised by 1p to 3p—last year's total was 6.9p, but the directors say that in the absence of unforeseen circumstances, they expect a final of not less than 4.5p, making 7.5p.

Gross revenue was up from £1.55m to £1.74m, and interest and expenses amounted to £137,956 compared with £266,800. There was a tax charge of £608,071 (£450,358). Stated earnings per 25p share were higher at 3.56p (2.98p), and net asset value dipped from 229.8p to 227.8p after deducting prior charges at par, or 227.6p (229.5p) assuming full conversion of loan stock.

### SPAIN

| 1982 High | 1982 Low | | June 18 Price % |
|---|---|---|---|
| 356 | 335 | Banco Bilbao | 355 |
| 352 | 328 | Banco Central | 337 |
| 324 | 290 | Banco Exterior | 306 |
| 337 | 306 | Banco Hispano | 316 |
| 115 | 110 | Banco Ind. Cat. | 113 |
| 367 | 315 | Banco Santander | 348 |
| 235 | 187 | Banco Urquijo | 187 |
| 395 | 352 | Banco Vizcaya | 369 |
| 250 | 216 | Banco Zaragoza | 245 |
| 180 | 126 | Dragados | 126 |
| 70 | 60 | Espanola Zinc | 69 |
| 66.5 | 58.2 | Fecsa | 65.5 |
| 50 | 32 | Gal. Preciados | 33 |
| 68.2 | 61.7 | Hidrola | 62.2 |
| 59 | 50 | Iberduero | 51 |
| 104.5 | 81.5 | Petroleos | 81.5 |
| 101 | 94 | Petroliber | 101 |
| 40 | 5.5 | Sogefisa | 7 |
| 74 | 69 | Telefonica | 70 |
| 68 | 58.7 | Union Elect. | 58.7 |

## BIDS AND DEALS

### Closer links between Telfos and members

Links between Telfos, formerly Charles Clifford Industries, and shareholders controlled or advised by its directors, have been drawn closer with the announcement that Plantation and General now owns 12 per cent of the ordinary shares and 22 per cent of its 12 per cent convertible loan stock 1991.

Plantation and General, one of the principal underwriters to Telfos' rights issue last year, is controlled by Mr Konrad Legg who is chief executive of Telfos. Jove Investment Trust, managed by Rivermoor Management Services, now controls 7 per cent of Telfos' ordinary shares. Mr Stephen Cockburn is chairman of Telfos and a director of Rivermoor.

### NCB PENSION CUTS ITS BREEDON STAKE

The National Coal Board Superannuation and Pension Schemes have sold 243,000 ordinary shares in Breedon and Cloud Hill Lime Works. The disposal, put through the market at 180p earlier this week, was placed by stockbroker Cazenove with a small number of institutional investors. It left the vendor with a holding of 312,999 ordinary shares (6.44 per cent).

### BUNZL CAPITAL LIFTED TO £10M

Shareholders of paper and packaging group Bunzl has approved an increase in the company's share capital from 32m ordinary shares worth a nominal £8m to 40m shares worth £10m.

Bunzl is currently engaged in a £13.8m bid for printing and packaging group Bemrose with an offer of 120p nominal of its own convertible loan stock for each Bemrose ordinary share.

Of Bunzl's authorised capital 26.19m ordinary 25p fully paid shares worth a nominal £6.55m have been issued.

### PRINCE OF WALES HOTELS' CAPITAL

Prince of Wales Hotels proposes to increase its capital to £1.7m by creation of 800,000 ordinary 25p shares. The board hopes to announce shortly an acquisition which will involve the issue of shares.

### ELECTRA INVST.

Electra Investment Trust has *sold 400,000 shares in stock-*jobbers Ackroyd and Smithers. Electra now holds 800,000 shares, representing 5 per cent of the Ackroyd issued share capital.

### CITY ABERDEEN LAND

City Aberdeen Land's offer to acquire General Trust and Heritages accepted in respect of 13,100 ordinary shares (87.33 per cent), 12,737 preference shares (87.15 per cent), and 39,000 deferred shares (97.5 per cent). The offers have been declared unconditional.

### RUSH AND TOMPKINS

Colguy Holdings, part of Newarthill, the Sir Robert McAlpine construction group, has increased its stake in Rush and Tompkins Group to 8.04 from 6.55 per cent.

## RECENT ISSUES

### EQUITIES

| Issue price p | Amount paid up | Latest Renunc. Date | 1982 High | 1982 Low | Stock | Closing price p | + or — | Div. p. or amount | Times Covered | Gross Yield | P.E. Ratio |
|---|---|---|---|---|---|---|---|---|---|---|---|
| ¶¶ | — | — | 13 | 11 | Argyll Foods Warr'ts. | 11½ | +½ | — | — | — | — |
| ¶250 | F.P. | 23/6 | 280 | 265 | Assoc. Heat Services | 265 | —3 | b9.0 | 2.1 | 4.9 | 13.4 |
| 46 | F.P. | 30/7 | 55 | 50 | Bairstow Eves 5p | 52 | +2 | b1.61 | 2.5 | 4.4 | 12.7 |
| §90 | F.P. | 25/6 | 101 | 92 | ✻Black (Michael) 20p | 95 | ...... | u3.0 | 2.4 | 4.6 | 12.2 |
| 15 | F.P. | 15/4 | 52 | 19 | Cambrian & Gen. 7½p | 30 | —1 | — | — | — | — |
| §260 | F.P. | 4/6 | 455 | 293 | ✻Cont. Microwave | 430 | —5 | b5.25 | 3.9 | 1.7 | 16.0 |
| §5†8 | F.P. | — | 59 | 57 | ✻Dencora | 57 | ...... | — | — | — | — |
| §30 | F.P. | 28/5 | 163 | 140 | ✻Druck Hldgs. | 163 | ...... | b2.3 | 2.5 | 2.0 | 28.3 |
| §87½p | F.P. | 25/6 | 98 | 84 | Electro-Prot. US$0.50 | 92 | +1 | uQ1.5c | 8.9 | 0.9 | 12.4 |
| — | — | — | 17 | 10 | Group Inv Option | 12 | ...... | — | — | — | — |
| §137 | F.P. | — | 170 | 150 | ✻McCarthy & Stone | 167 | —2 | b5.75 | 2.7 | 4.9 | 10.0 |
| §105 | F.P. | 2/7 | 121 | 110 | ✻Miles 33 10p | 113 | —3 | ud2.0 | 4.3 | 2.5 | 9.8 |
| 600 | F.P. | 2/7 | 630 | 600 | Oriflame SA (US$1.50) | 605 | +5 | bQ50c | 2.2 | 4.6 | 9.7 |
| 77 | F.P. | 14/7 | 97 | 88 | ✻Radio City 'A' NV | 89 | —1 | b5.6 | 1.5 | 9.0 | 10.4 |
| 140 | F.P. | 29/6 | 178 | 160 | ✻Ruddle (G.) 10p | 178 | +2 | b3.3 | 2.6 | 2.7 | 21.0 |
| ¶¶ | F.P. | — | 29 | 19 | Stewart Nairn | 23 | ...... | — | — | — | — |
| ¶¶ | F.P. | — | 90 | 40 | Zambia Cons Cpr 10K | 50 | ...... | — | — | — | — |

### FIXED INTEREST STOCKS

| Issue price £ | Amount paid up | Latest Renunc. date | 1982 High | 1982 Low | Stock | Closing price | + or — |
|---|---|---|---|---|---|---|---|
| ¶100 | £10 | 26/8 | 11¾ | 10½ | Bournemouth Water 9% Red. Prf. '87-89 | 11¾ | ...... |
| §99.383 | £25 | 14/7 | 25½ | 21½ | Cred. Foncier de France 14¾% Lon. 2007 | 23½ | ...... |
| ¶100 | F.P. | 1/7 | 102¼ | 100¾ | East Anglia Water 9% Red. Prf. 1987 | 101¾ | ...... |
| ¶¶ | F.P. | — | 146½ | 136 | First Nat. 12½pc Conv. Uns. Ln. 1987 | 140 | —2 |
| 101 | F.P. | — | 109 | 108 | ✻Lon&Cont 11½% Conv. Sub. Uns. Ln. '96-02 | 108 | —1 |
| ‖100 | F.P. | 9/7 | 101 | 98½ | Marlborough Props. 10% Cnv. Ln. '98-2002 | 98½ | ...... |
| 98.56 | £25 | 8/10 | 26 | 24 | Midland Bk. 14% Sub. Uns. Ln. 2002-07 | 24 | —¾ |
| ¶100 | £10 | 26/8 | 11¾ | 11 | Mid-Southern Wtr. 9% Pref. 1987 | 11¾ | ...... |
| §100 | F.P. | — | 100⅞ | 100⅛ | Nationwide Bdg. Soc. 14¾% (25/4/83) | 100½ | ...... |
| §100 | F.P. | — | 100 | 99⅞ | Do. 13⅞% (23/5/83) | 100 | ...... |
| 100 | F.P. | — | 100⅛ | 100⅛ | Do. 13⅝% (3/6/83) | 100⅛ | ...... |
| ¶100 | F.P. | — | 47 | 38 | RIT & Northern 4pc Net Cum. Prf. £1 | 40 | +1 |
| ¶100 | F.P. | — | 46 | 45 | Do. 4.7pc Net Cum. Prf. £1 | 45 | —1 |
| ¶100 | £10 | 29/7 | 11¾ | 10½ | Wrexham Water 9% Red. Prf. '87-89 | 11¾ | ...... |

### "RIGHTS" OFFERS

| Issue price p | Am'unt paid up | Latest Renunc. date ● | Latest Renunc. date ■ | 1982 High | 1982 Low | Stock | Closing price p | + or — |
|---|---|---|---|---|---|---|---|---|
| 10 | F.P. | 27/4 | 28/5 | 13¾ | 10 | Ansbacher (H.) 5p | 10½ | +¼ |
| 170 | F.P. | 13/5 | 24/6 | 190 | 180 | Bank Leumi (UK) £1 | 190 | ...... |
| 135 | F.P. | 28/5 | 9/7 | 180 | 156 | Carless Capel 10p | 166 | —6 |
| 174 | F.P. | 18/6 | 30/7 | 233 | 218 | Grand Met 50p | 226 | ...... |
| Kr.150 | Nil | — | — | £5¼pm | £3pm | Great Northern Tel (£10) | £3¾pm | +¼ |
| Kr.150 | Nil | — | — | 250pm | 180pm | Norsk Hydro (Kr.100) | 190pm | —10 |
| 50 | Nil | 24/6 | 13/8 | 8pm | 2½pm | Press (Wm.) 10p | 2½pm | —1 |
| 325 | F.P. | 17/6 | 30/7 | 445 | 390 | Saatchi & Saatchi 10p | 390 | —5 |
| 215 | Nil | 5/7 | 13/8 | 40pm | 30pm | Sketchley | 30pm | —2 |
| 10 | F.P. | 24/3 | 23/4 | 12½ | 9½ | Sturla 10p | 9½ | —½ |
| 133 | Nil | 10/6 | 10/6 | ½pm | 0 | Young (H.) | — | ...... |

Renunciation date usually last day for dealing free of stamp duty. *b* Figures based on prospectus estimate. *d* Dividend rate paid or payable on part of capital: cover based on dividend on full capital. *g* Assumed dividend and yield. *t* Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. *u* Forecast dividend: cover based on previous year's earnings. F Dividend and yield based on prospectus or other official estimates for 1982. *Q Gross. T Figures assumed.* ⊕ *Figures or report awaited.* ‡ *Cover allows for* conversion of shares not now ranking for dividend or ranking only for restricted dividends. § Placing price. *p* Pence unless otherwise indicated. ¶ Issued by tender. ‖ Offered to holders of ordinary shares as a "rights." ** Issued by way of capitalisation. §§ Reintroduced. ¶¶ Issued in connection with reorganisation, merger or take-over. ‖‖ Introduction. ☐ Issued to former preference holders. ■ Allotment letters (or fully-paid). ● Provisional or partly-paid allotment letters. ★ With warrants. †† Dealings under special Rule. ✻ Unlisted Securities Market. ‡‡ London Listing. ⁑ Effective issue price after scrip. † Formerly dealt in under Rule 163(2)(a). ▲ Issued free as an entitlement to ordinary holders.

## Public Works Loan Board rates

Effective June 16

| Years | Quota loans repaid by EIP† | Quota loans repaid A‡ | Quota loans repaid at maturity§ | Non-quota loans A* repaid by EIP† | Non-quota loans A* A‡ | Non-quota loans A* repaid at maturity§ |
|---|---|---|---|---|---|---|
| Up to 5 | 13⅛ | 13¼ | 13⅜ | 14⅝ | 14⅝ | 14⅞ |
| Over 5, up to 6 | 13¼ | 13¼ | 13¾ | 14⅜ | 14½ | 14⅞ |
| Over 6, up to 7 | 13⅜ | 13¾ | 14 | 14⅜ | 14½ | 15⅛ |
| Over 7, up to 8 | 13⅜ | 13½ | 14 | 14⅞ | 14½ | 15⅛ |
| Over 8, up to 9 | 13½ | 13⅝ | 13⅞ | 14⅞ | 14½ | 14⅞ |
| Over 9, up to 10 | 13⅝ | 13⅞ | 13⅞ | 14⅞ | 14½ | 14⅝ |
| Over 10, up to 15 | 14 | 13⅞ | 13¾ | 14⅝ | 14⅝ | 14½ |
| Over 15, up to 25 | 13¾ | 13⅝ | 13⅝ | 14½ | 14½ | 14⅜ |
| Over 25 | 13⅝ | 13⅝ | 13⅝ | 14⅜ | 14⅜ | 14⅜ |

* Non-quota loans B are 1 per cent higher in each case than non-quota loans A. † Equal instalments of principal. ‡ Repayment by half-yearly annuity (fixed equal half-yearly payments to include principal and interest). § With half-yearly payments of interest only.

## PENDING DIVIDENDS

Dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table. The dates shown are those of last year's announcements except where the forthcoming board meetings (indicated thus*) have been officially published. It should be emphasised that dividends to be declared will not necessarily be at the amounts in the column headed "Announcement last year."

| | Date | Announcement last year |
|---|---|---|
| Acrow | July 28 | Final 0.75 |
| Allied Colloids | July 16 | Final 2.087 |
| Allnatt London | July 16 | Final 3.4 |
| Associated Newspapers | July 15 | Interim 4.5 |
| *BPB Inds | June 30 | Final 5.0 |
| *Baker Perkins | June 24 | Final 3.0 |
| Bank Leumi (UK) | July 27 | Interim 3.15 |
| Bath and Portland | July 15 | Interim 2.0 |
| *Bilton (Percy) | July 28 | Final 4.4 |
| *Brown (John)* | *July 24* | *Final 2.5* |
| *Centrovincial Estates | June 22 | Final 1.33 |
| *Charter Cons. | June 22 | Final 6.6 |
| *Chubb | June 23 | Final 3.478 |
| Daily Mail & Gen Tst. | July 15 | Interim 11.0 |
| *Davy Corpn* | *July 23* | *Final 4.7* |
| Distillers | July 16 | Final 7.75 |
| Dixons Photographic | July 30 | Final 2.179 |
| Dowty | July 21 | Final 2.8 |
| Electro-Components | June 25 | Final 5.5 |
| *Ferranti | June 23 | Final 4.0 |
| Fitch Lovell | July 30 | Final 3.71 |
| *GEI Intl | June 22 | Final 3.655 |
| Gestetner | July 16 | Interim 1.25 |
| Granada | July 1 | Interim 1.75 |
| GUS | July 16 | Final 8.0 |
| *Greene King | July 1 | Final 4.2 |
| *HAT Group | July 13 | Final 1.25 |
| *Hambros | June 22 | Final 160.0 |
| Haslemere Estates | July 16 | Final 4.56 |
| Hogg Robinson | July 21 | Final 3.0 |
| Illingworth Morris | July 17 | Final nil |
| ICI | July 30 | Interim 9.0 |
| *Imperial Cont Gas | July 6 | Final 5.3 |
| Imperial Group | July 9 | Interim 2.75 |
| *Initial* | *July 20* | *Final 6.25* |
| *International Timber | June 30 | Final 2.0 |
| LRC Internatl. | July 13 | Final 1.8 |
| Lex Service | July 30 | Interim 2.8 |
| *Lloyds Bank | July 23 | Interim 8.625 |
| Lonrho | July 30 | Interim 3.0 |
| *MFI Furniture* | *July 23* | *Final 1.52* |
| Magnet and Southerns | July 14 | Final 3.0 |
| *Meyer (Mont L.) | June 30 | Final 1.25 |
| Midland Bank | July 31 | Interim 8.0 |
| NatWest | July 28 | Interim 9.625 |
| *Norcross | June 28 | Final 3.56 |
| Nottingham Manf. | July 27 | Interim 1.1 |
| *Powell Duffryn | June 23 | Final 9.55 |
| *Racal Electronics | June 22 | Final 3.4 |
| *Rank Organisation* | *July 12* | *Interim 4.8* |
| *Redland | June 24 | Final 4.67 |
| *Renold* | *June 24* | *Final nil* |
| Rothmans Intl. | July 16 | Final 2.65 |
| SGB | June 30 | Interim 2.3 |
| Scottish & Newc. Breweries | July 2 | Final 2.875 |
| 600 Group | June 11 | Final 2.91 |
| Thorn EMI | July 10 | Final 10.575 |
| *Trusthouse Forte | June 24 | Interim 1.5 |
| Unigate | July 16 | Final 4.0 |
| *Union Discount | July 21 | Interim 9.0 |
| Vantona | July 28 | Interim 3.0 |
| *Wedgwood | June 18 | Final 2.425 |
| *Whitecroft | June 21 | Final 2.6 |

* Board meeting intimated. † Rights issue since made. ‡ Tax free. § Scrip issue since made. ¶ Forecast.





### BASE LENDING RATES

| | |
|---|---|
| A.B.N. Bank | 12½% |
| Allied Irish Bank | 12½% |
| American Express Bk. | 12½% |
| Amro Bank | 12½% |
| Henry Ansbacher | 12½% |
| Arbuthnot Latham | 12½% |
| Associates Cap. Corp. | 13 % |
| Banco de Bilbao | 12½% |
| BCCI | 12½% |
| Bank Hapoalim BM | 12½% |
| Bank of Ireland | 12½% |
| Bank Leumi (UK) plc | 12½% |
| Bank of Cyprus | 12½% |
| Bank Street Sec. Ltd. | 14 % |
| Bank of N.S.W. | 12½% |
| Banque Belge Ltd. | 12½% |
| Banque du Rhone et de la Tamise S.A. | 13 % |
| Barclays Bank | 12½% |
| Beneficial Trust Ltd. | 13½% |
| Bremar Holdings Ltd. | 13½% |
| Brit. Bank of Mid. East | 12½% |
| ■ Brown Shipley | 12½% |
| Canada Perm't Trust | 13 % |
| Castle Court Trust Ltd. | 13 % |
| Cavendish G'ty T'st Ltd. | 14 % |
| Cayzer Ltd. | 12½% |
| Cedar Holdings | 13 % |
| ■ Charterhouse Japhet | 12½% |
| Choulartons | 13 % |
| Citibank Savings | ¶12½% |
| Clydesdale Bank | 12½% |
| C. E. Coates | 13 % |
| Comm. Bk. of Near East | 12½% |
| Consolidated Credits | 13 % |
| Co-operative Bank | *12½% |
| Corinthian Secs. | 12½% |
| The Cyprus Popular Bk. | 12½% |
| Duncan Lawrie | 12½% |
| Eagil Trust | 12½% |
| E.T. Trust | 13 % |
| Exeter Trust Ltd. | 13½% |
| First Nat. Fin. Corp. | 15½% |
| First Nat. Secs. Ltd. | 15½% |
| ■ Robert Fraser | 13 % |
| Grindlays Bank | ‡12½% |
| ■ Guinness Mahon | 12½% |
| ■ Hambros Bank | 12½% |
| Heritable & Gen. Trust | 12½% |
| ■ Hill Samuel | §12½% |
| C. Hoare & Co. | †12½% |
| Hongkong & Shanghai | 12½% |
| Kingsnorth Trust Ltd. | 14 % |
| Knowsley & Co. Ltd. | 13 % |
| Lloyds Bank | 12½% |
| Mallinhall Limited | 12½% |
| Edward Manson & Co. | 13½% |
| Midland Bank | 12½% |
| ■ Samuel Montagu | 12½% |
| ■ Morgan Grenfell | 12½% |
| National Westminster | 12½% |
| Norwich General Trust | 12½% |
| P. S. Refson & Co. | 12½% |
| Roxburghe Guarantee | 13 % |
| E. S. Schwab | 12½% |
| Slavenburg's Bank | 12½% |
| Standard Chartered | ■12½% |
| Trade Dev. Bank | 12½% |
| Trustee Savings Bank | 12½% |
| TCB | 12½% |
| United Bank of Kuwait | 12½% |
| Whiteaway Laidlaw | 13 % |
| Williams & Glyn's | 12½% |
| Wintrust Secs. Ltd. | 12½% |
| Yorkshire Bank | 12½% |

■ Members of the Accepting Houses Committee.
* 7-day deposits 9.5%, 1-month 9.75%. Short term £8,000/12 month 12.1%.
† 7-day deposits on sums of: under £10,000 9½%, £10,000 up to £50,000 10¼%, £50,000 and over 11%.
‡ Call deposits £1,000 and over 9½%.
§ 21-day deposits over £1,000 10½%.
¶ Demand deposits 9¼%.
■ Mortgage base rate.



THE TRING HALL USM INDEX

125.8 (—0.9)

Close of business 18/6/82

Tel.: 01-638 1591

BASE DATE 10/11/80 100

LADBROKE INDEX

Close 555-557 (—2)

# BUILDING AND CIVIL ENGINEERING

## Public housing outlook bleak

THE Government-inspired reduction in public sector housing activity has been starkly underlined in the latest set of forecasts from the Building and Civil Engineering Economic Development Committees.

The forecasts, which last week suggested that the construction industries can look forward to a modest, medium-term recovery, paint a bleak picture for the future of public housing. The committees' own observation that the prospects are at least slightly more optimistic than they were six months ago provide little room for comfort.

Output in the public housing sector as a whole fell last year by 37 per cent in value terms and a further 21 per cent reduction expected this year. Another 5 per cent reduction looks likely in 1983.

Translated into numbers, public sector starts (which have shown a steep downward trend since the mid-1970s) could this year be 40,000 against 37,000 in 1981, with little chance of any significant change up until 1984. With completions set to fall this year to around 54,000 against 85,000 in 1981, and with further reductions in 1983 and 1984, activity will be running at little more than one quarter of the levels achieved in 1975 and 1976.

The rapid decline in new public sector housebuilding could have been even more acute, but for the programme of construction being carried out by housing associations under the auspices of the Housing Corporation. The associations are due to make a start on around 12,000 homes this year, against 10,000 last year. Little further growth is seen, however, beyond this year.

The committees point out that the housing investment programme allocations for England in 1982-3 indicate a marginal real increase over the previous financial year (in which there was a substantial underspend). But the total includes the provision of £593m from capital receipts arising from housing and land sales, an increase of £180m over the previous year.

Local authorities may opt to increase revenue through interest income, to help limit rent increases, or they could retain receipts to provide a badly needed degree of flexibility at a time when they have to operate under tight financial control.

While the squeeze on the public sector continues, the government's sales programme goes on. Sales in 1981-82 reached about 130,000 and they are expected to reach a peak of 165,000 in the current financial year. During the 1970s, the annual sales rate hovered around 20,000.

**MICHAEL CASSELL**

## AROUND THE INDUSTRY

### Mini airport for dockland proposed

THE LONDON Docklands Development Corporation is now evaluating a proposal from John Mowlem and Brymon Airways of Plymouth to build a short take-off and landing "mini" airport in the Royal Docks area of Newham.

The programme of public consultation includes a mobile exhibition which is touring the area, and a series of community group meetings.

Mr Philip Beck, chairman of Mowlem, says that the provision of an airport facility would play an important part in the revitalisation of docklands and claims that it would not affect the quality of life of the local community.

"The new generation of STOL aircraft are very quiet and safe and are specifically designed to operate in urban areas," he added.

The consortium is emphasising that no decisions have yet been taken and although the proposal has aroused interest within the Corporation, the scheme must prove favourable to local residents.

A full feasibility study has been commissioned by the Corporation and the result should be known in July. In the meantime, there could be a demonstration of a Dash 7 STOL aircraft landing to satisfy local residents about the impact of an airport facility.

★

LATEST DESIGN in nuclear fallout shelters, aimed specifically at borough councils, has come from Clifford Engineering in Southampton. The shelter has room for 20 people and includes a power module for lighting. The installed cost, inclusive of ventilating equipment and blast valves varies between £35,000 and £40,000 depending on site conditions and exclusive of interior fittings.

★

THE CORRECT use of glazing in buildings is a subject which has aroused increasing interest and the key document covering this particular subject, the revised British Standard BS 6262 Code of Practice for Glazing for Buildings, will be available from July 1.

★

TAYLOR WOODROW is offering discounts on its houses to ordinary shareholders in the group. Shareholders can expect a reduction of 1 per cent on final purchase price. The offer closes on August 31.



## Taylor Woodrow to build £20m television complex

A CONTRACT, understood to be worth between £12m and £14m, for the constructin of new television studio complex for Central Independent Television has been won by **TAYLOR WOODROW CONSTRUCTION (MIDLANDS).**

Taylor Woodrow said that the complex, in Lenton Road, Nottingham, will be one of the most technically advanced in Europe. The total cost of the scheme, which will have a floor area of about 200,000 sq ft, is estimated at around £20m.

The complex will have three main production studios from which Central will provide locally produced programmes for the East Midlands area and for the independent television network throughout Great Britain.

The scheme is designed around a central block which will house the studios and plant facilities. To the west of the central block there will be a two-storey building which will provide administration offices as well as production and transmission facilities. Another two-storey building to the south will provide catering and general staff facilities.

Other parts of the complex will provide facilities for scenery construction, workshops, crew rooms as well as a single-storey staff restaurant. Taylor Woodrow will also provide roadways, footpaths, car parking and landscaping for the scheme.

Construction work has already started and is due for completion in autumn next year. Richard Seifert are architects; H. L. Waterman, structural engineers, and John Reddick and Partners, quantity surveyors.

This is the second television complex to be built by Taylor Woodrow (Midlands) which constructed the BBC studio at Pebble Mill in Birmingham, opened in 1971.

### . . . more home contracts . . .

A regional distribution centre is to be built for the House of Fraser department store group at Avonmouth near Bristol, under a £2.6m contract awarded to the south west region of

★

JOHN LAING CONSTRUCTION. Work is to start soon on the construction of the high bay warehouse of 77,500 sq ft—47 ft to the eaves—containing narrow aisle storage, intake and despatch areas, an attached two-storey office building and extensive parking and landscaped areas. Completion is due in the summer of 1983. Construction is of concrete ground beams on deep piles. The warehouse will have a steel portal frame clad in facing brick and block to the lower levels with profiled metal sheeting to the upper levels and roof. The office will be of load bearing brick and block with provision for an upward extension at a later date.

★

BOVIS CONSTRUCTION has been awarded a contract valued at £450,000 for the repair and refurbishment of the external elevations to two 16-storey tower blocks. The work includes the repair of spalling concrete to external cladding panels and providing weathertight joints between the individual external elements of the buildings. This remedial work will halt the damage that is being caused to the structure by the ingress of rain. These local authority flats at Norris Green, some eight miles outside the city centre of Liverpool, were constructed during the local authority housing boom of the 1960s using a pre-cast concrete system build method. Work, which started some weeks ago is expected to be complete in September. The flats will remain occupied throughout the refurbishment. Liverpool City Council will award an extension of the contract which will incorporate a further three blocks of flats at an estimated cost of £430,000.

★

A contract worth over £2.1m, has been awarded to **WALTER LAWRENCE AND SON** to build 79 homes at Sanford Manor, Kings Road, SW6, for the Orbit General Housing Association. The development will consist of one three-storey block of flats and a four-storey sheltered housing block together with two-storey houses. The contractors will also undertake all associated works including landscaping. Work has started and the contract period is 91 weeks.

★

HENRY BOOT SCOTLAND is to carry out a £1.5m management contract for the construction of a maintenance and service centre for geotechnical analysts, Schlumberger Inland Services Inc of Aberdeen. Within this 1¼ hectare project, designed to service oil and gas exploration equipment, are various laboratories, stores, security post, compound and offices together with associated external works and drainage. Work has started, for completion on November 30.

★

JOHN MOWLEM AND CO has a second contract at RAF Coningsby, Lincolnshire. Awarded by the Property Services Agency, the £1.3m project is to construct two large storage tanks for aviation fuel, along with mechanical and electrical installations, pipework, road works, drainage and ancillary buildings. Work has just started and completion is due in September 1983.

★

G. E. WALLIS of Bromley has won a contract worth £577,544 for supplying and fixing new joinery and structural carpentry as part of the restoration of the chamber ceiling of the House of Lords. At the same time, West of England Restoration Studio of Bristol has won a £91,870 contract for the restoration of the painted panels which form part of the ceiling.


## Longest rail tunnel

WITH PROSPECTS of an early start to a fixed link across the English Channel receding still further, work is well advanced on an equally dramatic and ambitious project on the other side of the world in Japan.

There is now only about 1,000 yards left to be bored to complete the excavation of Japan's 53.8 km Seikan railway tunnel, started ten years ago, victim of its own fair share of delays, but now well on the way to completion.

The double-track rail tunnel, designed to take the 250 km per hour Shinkansen "bullet train," will link the islands of Honshu and Hokkaido across the Tsugaru Strait. Work on the link, between Tappi and Yoshioka, began ten years ago and is being undertaken by the Japan Railway Construction Public Corporation of Tokyo. Just over 23 km of the tunnel will be under the sea.

The Seikan scheme will be the world's longest railway tunnel, eclipsing the proposed 52.5 km Strait of Dover link and the existing 19.8 km Simplon tunnel.

Work on the tunnel, which was surveyed initially in 1946, began in 1971 after a 25-year reconnaissance period. It was originally estimated that construction would take eight years but in 1976, following a series of problems, a three-year delay was announced and completion was expected in the spring of this year.

Now, the Corporation says it expects to complete construction of the access railway between the tunnel and the existing railway by 1985.

Initially, it was planned that trains of both the Shinkansen (standard gauge) and the existing railway (narrow gauge) would use the tunnel but delays to the expansion of the Shinkansen network mean that it will be used only by the existing railway in the initial period of operation. The tunnel is also to be used as a telecommunications and electricity supply link between the two islands.

During the ten-year tunnelling programme, by a tunnel-boring machine and drill and blast methods, difficulties encountered included no fewer than four inundations of sea water and enormous ground pressures. Water pressure—the tunnel is beneath 140m of sea—and seepage volume determined that the tunnel would be cut 100m below the seabed.

Geological conditions also provided problems and engineers had to cope with highly-fissured volcanic rocks, through which water often seeps, as well as faulting in sedimentary rocks.

The delays have inevitably meant big increases in costs. In 1971, it was reported that the tunnel project would cost Y200bn (£453m) but by 1976, when delays were announced, total cost forecasts had escalated to Y355.4bn (£805m).

The tunnel is seen as a major aid to improving the efficiency of Japan's economy by connecting two of the country's four principal islands and forming the final link in the high-speed rail network from northern Hokkaido to Kyushu's southern tip, a development which is expected at least to triple the volume of passenger and freight traffic.

The Japan Railway Construction Public Corporation has estimated that by 1985 the tunnel would be used by 25.4m passengers, six times the 1972 traffic on the Seikan Ferryboat Service. It is estimated that freight traffic will reach 26.2m tons by 1985, five times that in 1972.

The tunnel will reduce the journey between Hakodate and Aomori from 230 minutes to 130 minutes. The high-speed system, combined with the tunnel, will cut travelling time over the 1,200 km between Tokyo and Sapporo, Hokkaido's capital, by around two-thirds, to just twice the air flight time. It will enable a stable, massive supply of fresh vegetables and meat to Honshu from Hokkaido. Competition from train fares could halve air fares.

Seikan may prove, however, too big an investment for the traffic it will carry eventually. Passenger and cargo traffic across the Tsugaru Strait reportedly reached a peak—4.8m passenger-journeys and 8.5m tonnes of freight—in 1973, after air and sea services had established themselves, then slumped by 40 per cent.

**ALAN ELLIS**

هكذا من الاصل

# Parliamentary business for this week

BY DUNCAN CAMPBELL-SMITH

### TODAY

**Commons:** Debate on the crisis in British Rail until about 7 pm, followed by debate on the unemployment crisis among young people—both on Opposition motion. Motions on the Departments (No 2) (Northern Ireland Order and the Films Distribution of Levy)—Regulations.

**Lords:** Oil and Gas (Enterprises — Bill, third reading. Deer (Amendmen) (Scotland) —Bill, Commons amendments. Cinematograph (Amendment)—Bill, Committee. Short debate on the steps the Government is taking to help restore the integrity of the Lebanon after Israel's invasion.

**Select Committees:** Foreign Affairs—Subject: Supply estimates 1982-83, Class II (non-aid votes). Witnesses: Foreign and Commonwealth Office and Home Office (Room 8, 4.30 pm). Treasury and Civil Service—Subject: International monetary arrangements. Witnesses: Bank of England officials (Room 15, 4.30 pm). Public Accounts—Subject: Fraud and irregularities in the Property Services Agency; private financing of Government buildings. Witnesses: Mr A. M. Alfred, Property Services Agency (Room 16, 4.45 pm). Social Services—Subject: 1982 Public Expenditure white paper: public spending on social services. Witness: Rt. Hon. Norman Fowler, MP, Secretary of State for Social Services (Room 21, 5 pm).

### TOMORROW

**Commons:** Consideration of Timetable Motion on the Northern Ireland Bill, followed by a debate on the Middle East.

**Lords:** Children's Homes Bill, Third Reading. Planning Inquiries (Attendance of Public) Bill, Third Reading. Criminal Justice Bill, Committee. Pilotage Commission (Additional Functions) Order 1982, motion for approval.

**Select Committees:** Procedure (Finance)—Subject: Procedure (Finance). Witnesses: Treasury (Room 15, 4.15 pm). Parliamentary Commissioner for Administration—Subject: Reports of the Parliamentary Commissioner. Witnesses: The Land Registry (Room 5, 5 pm). Joint Committee on Statutory Instruments (Room 3, 4.15 pm).

### WEDNESDAY

**Commons:** Northern Ireland Bill, Committee Stage.

**Lords:** Short debate on housing problems, the current legislation on landlord and tenant, the importance of home ownership, including houses in the ownership of local authorities. A second short debate on the problems of civil defence, in particular, duties of local authorities and the value of the recruitment of volunteers. Debate on the report of the Multiple Sclerosis Society on the *benefits for partial disability*.

**Select Committees:** Scottish Affairs—Subject: Prestwick Airport. Witnesses: British Airports Authority (Room 18, 10.30 am). Welsh Affairs—Subject: Scrutiny of Welsh Office Departments. Witnesses: Welsh Office economic planning group (Room 18, 10.30 am). Home Affairs—Subject: Home Office procedures for the investigation of possible miscarriage of justice. Witnesses: Home Office officials (Room 8, 11 am). Public Accounts—Subject: Fraud and irregularities in the Property Services Agency: private financing of Government buildings. Witness: Mr A. M. Alfred, PSA (Room 16, 4 pm).

Treasury and Civil Service Sub-Committee — Subject: The structure of personal income taxation and income support. *Witnesses: for Department of* Health and Social Security officials (Room 15, 4.15 pm). Employment — Subject: The working of the Health and Safety Commission and Executive; achievements since the Robens report. Witnesses: The Health and Safety Commission (Room 8, 4.30 pm).

### THURSDAY

**Commons:** Consideration of Lords amendments to the Oil and Gas (Enterprises) Bill. Motion on Building (Prescribed Fees) Regulations.

**Lords:** Firearms Bill, Committee. Local Government and Planning (Scotland) Bill, Committee. Sheep Variable Premium (Protection of Payments) (Amendment) Order 1982.

### FRIDAY

**Commons:** Derelict Land Bill remaining stages. Lords amendments to the Social Security and Housing Benefit Bill.

# WEEK'S FINANCIAL DIARY

The following is a record of the principal business and financial engagements during the week. The board meetings are mainly for the purpose of considering dividends and official indications are not always available whether dividends concerned are interims or finals. The sub-divisions shown below are based mainly on last year's timetable.

**TODAY**

COMPANY MEETINGS—
Bishopsgate Tst., 41 Bishopsgate, EC, 2.30
Copydex, Institute of Directors, Pall Mall, SW, 12.00
Crowther (John), Union Mills Milnsbridge, Huddersfield Yorkshire, 12.00
Earlys of Witney, Witney Mill, Witney, Oxfordshire, 2.30
Fortnum and Mason, Bowater House 69, Knightsbridge, SW, 10.30
Marshalls Universal, Fairfield Halls, Park Lane, Croydon 12.00
Triplevest Income, 117, Old Broad Street EC, 12.00
Wimpey (George), Royal Garden Hotel, Kensington High Street, W, 12.00
Runciman (Walter), 52, Leadenhall St., EC, 12.00
Silentnight Hldgs., Midland Hotel, Peter Street, Manchester 12.00
Tilbury Group, Connaught Rooms, Great Queen Street, WC 11.30
Usher-Walker, Connaught Rooms, Great Queen Street WC, 12.00

BOARD MEETINGS—
Finals:
Bernett and Hallamshire
Centrovincial Estates
Charter Consolidated
GEI International
Gresham House Estate
Hambros
Hargreaves
Minerals Oils and Resources
Wintrust
British Benzol Carbonising
Chamberlain Phipps
Whitecroft

Interims:
Ashdown Invests.
Countryside Properties
Jackson (J. and H. B.)
Lookers

DIVIDEND & INTEREST PAYMENTS—
British Sugar, 15p
City of Oxford Inv. Tst., 3.75p
Essex Water Debs. 1¼, 2, 2¼, 2½ (1986-1991) 2½ (perp.) 3, 3¼, 3½ (1986-88) 3¾, 4, 5 and 5¼pc
Hyman (I. and J.) 0.1p
Inch Kenneth Kajang Rubber, 2p
Lone Star Inds., 47.5cts
Multibanco Comermex S.A. Fltg. Rate Notes 1984 $73.31
Parambe, 0.45p
Pfizer Inc., 46cts
Porto Alegre 5pc Gold Bds. (Plan A) (Int. now 1⅜pc) 2½pc
Renong Tin Dredging, 2p
Secs. Tst. of Scotland, 3.2p
Selected Risks Invs. S.A. (Br.) 25cts.
Wilkinson Warburton 4.66p
Midland Intnl. Financial Servs., B.V. Gtd. Fltg. Rate Notes 1989 $380.75
North Atlantic Secs. Corp., 1p
Tilbury, 19p

**TOMORROW**

COMPANY MEETINGS—
Black and Edgington, Centre Point, 103, New Oxford Street, W, 12.00
British Borneo Petroleum Winchester Hse., 100 Old Broad St., EC, 12.00
British Northrop, Daisyfield, Blackburn, Lancashire, 12.00
British Vending, Kestrel House, Garth Rd., Morden, Surrey, 10.30
Brixton Estate, 22-24, Ely Place, EC 12.00
Cameron (J. W.), Greenbank Offices, Lion Brewery Hartlepool, Cleveland, 12.00
Channel Tunnel Invs., Winchester Hse., 100 Old Broad Street, EC 12.00
Crestain, Plaisterers Hall, 1, London Wall EC, 12.00
First Charlotte Assets Tst., 1, Charlotte Square, W, 12.30
Jove Inv. Tst., 44, Bloomsbury Square W, 11.00
Lake View Inv. Tst., Winchester House, 77, London Wall EC, 10.45

**WEDNESDAY, JUNE 23**

COMPANY MEETINGS—
Advance Services, Stratton House, Stratton Street, W 12.00
De Vere Hotels, Connaught Rooms, Gt. Queen St., WC 12.00
Electronic Rentals, Gt. Eastern Hotel, Liverpool St., EC, 11.00
Ellis and Goldstein, Barrington House, Wood St., EC, 12.00
Estate Duties Inv. Tst., Skinners Hall, 8½ Dowgate Hill, EC, 12.15
Holt (Joseph), Melville Hotel Barton Rd., Stretford, Manchester, 12.00
Lee Valley Water, Bishops Rise, Hatfield, Hertfordshire, 12.30
Marine and General Mutual Life Assnce., MGM House, Heene Road, Worthing, West Sussex, 12.30
Provincial Ins., Winchester House 100, Old Broad St., EC, 12.00
Rickmansworth and Uxbridge Valley Water, London Road, Rickmansworth, Hertfordshire, 12.00
Seccombe Marshall and Campion, 7 Birchin Lane, EC, 3.30
Tootal Grp., 56, Oxford Street, Manchester, 12.00
UDS Churchill Hotel, Portman Square, W 12.00
Western Bros., Fairfield Halls, Park Lane, Croydon 11.00

BOARD MEETINGS—
Finals:
Austin (E.)
Chubb
Cocksedge
Ferranti
Hicking Pentecost
Jermyn Invest.
Petbow
Powell Duffryn

Interims:
Anglia Television
Jones (Ernest) (Jewellers)
Lee (Arthur)
Nottingham Brick
Polly Peck

DIVIDEND & INTEREST PAYMENTS—
Ellis and Goldstein 1.3p
English National Inv. Pfd., 1.35p. Do. Dfd. 2.95p
Estate Duties Inv. Tst., 1.5p
Eucalyptus Pulp Mills, 6p
Girozentrale Und Bank Der Ost. Spark Fltg. Rate Notes 1991, $38.61
Scandinavian Finance B.V. Stlg. Fltg. Rate Notes 1990, £34.82

**THURSDAY, JUNE 24**

Thai Farmers Intl. Fin. Gtd. Fltg. Rate Notes 1984, $76.78

COMPANY MEETINGS—
Boustead, Westbury Hotel, New Bond St., W 12.00
Erskine House Invs. Winchester House, London Wall, EC, 12.00
Ex-Lands, 25-35 City Road, EC 12.00
Feedex Agricultural, Daisy Hill, Burstwick, North Humberside, 6.00
Gold and Base Metal Mines, 25-35, City Road, EC, 12.30
Grampian Television, Television Studios Queens Cross, Aberdeen, 12.00
Hartlepool Water, 3, Lancaster Road Hartlepool, 12.00
House of Fraser, City Hall, Candleriggs, Glasgow, 12.00
Kwik-Fit (Tyres and Exhausts), Great Eastern Hotel, EC 12.00
Laing (John), Barbican Centre Barbican, EC, 11.15
Lee Cooper, Cafe Royal Regent Street, W, 12.00
Mersey Docks and Harbour, Port of Liverpool Buildings, Pier Head, Liverpool, 11.45
Porter Chadburn, St. Georges Hotel, Lime Street Liverpool, 12.15
Slingsby (H.C.), Victoria Hotel Bridge Street, Bradford, 10.30
South Staffordshire Waterworks, Head Office Sheepcote Street, Birmingham, 12.30
Sumner (Francis), Winchester House, 77, London Wall, 12.00
TR Natural Resources Inv. Tst., Mermaid House, 2 Puddle Dock EC, 12.00
Towles, Queens Road, Loughborough, Leicestershire, 11.30
Transatlantic and General Invs., Three Quays, Tower Hill EC, 12.30

BOARD MEETINGS—
Finals:
Baker Perkins
Electric and General Invests.
Estates and Agency
Joseph (Leopold)
Lloyd (F. H.)
Redland
Renold
Sangers
Scapa
Towles
Triplex Foundries
United Gas Industs.

Interims:
Cambrian and General Secs.
Castlefield (Klang) Rubber Estates
Killinghall (Rubber) Development Synd.
Trusthouse Forte
United Guarantee
United States and General Trust

DIVIDEND & INTEREST PAYMENTS—
Automotive Prods., 2p
British Inds. and Gen. Invst. Tst., Pfd. 1.5p
East Rand Cons., 0.77p
Eola Intl. B.V. N.V. Gtd. Fltg. Rate Note 1989 $385.49
Hurst (Charles), 1.65p
Jantar, 1.5p
Manchester Con. 3pc Red. 1928 (or after) 1½pc. Do. 4pc Cons. Irrd., 2pc
Met. Water Board, Kent W.W. 3pc Db. 1½pc
Peachey Prop. Deb. 3½pc
Pearce (C. H.), 4.25p
Scottish Mort. and Tst., 2.5p

**FRIDAY, JUNE 25**

COMPANY MEETINGS—
Aberdeen Construction, Station Hotel, Aberdeen, 12.00
Assctd. British Foods, Connaught Rooms, Great Queen Street, WC, 11.00
Edinburgh Inv. Tst., 3 Charlotte Square, Edinburgh, 12.00
European Ferries, Connaught Rooms, G. Queen Street, WC, 11.00
Foseco Minsep, Connaught Rooms Gt. Queen Street, WC, 11.00
Gaskell Broadloom, Swan Inn, Mo[illegible] Hotel, Preston New Road, Blackburn, Lancashire, 12.00
Hall (Matthew), Empire Rooms, 161, Tottenham Court Road, W, 12.00
Harwells, Gt. Seacourt Tower, West Way, Oxford, 11.00
MacDonald Martin Distilleries, 186, Commercial Street, Edinburgh, 12.00
Miller (F.), 14, St. Vincent Place, Glasgow, 12.00
Scottish Heritable Tst., 11, George Square, Glasgow, 12.00

BOARD MEETINGS—
Finals:
Executive Clothes
Rediffusion
Walker (C. and W.)

DIVIDEND & INTEREST PAYMENTS—
Aberdeen Tst., 2.3p
B.A.S.F. Aktiengesellschaft, DM7
Black and Decker, 19cts.
Crokey (S.) 0.5p
Chesebrough-Ponds, 43cts.
G.T. Inv. Fund, 10cts.
Grampian T.V., 3.25p
Holt (Joseph), 7p
Inveresk Inds., 0.8[illegible]p
KCA Intnl., 7.75p
London Utd. Invs., 6p
Mercantile Mort. and Realty Invest. Bnf. Intl., NPV 46cts
Nat. Bank of Australasia, $A11cts.
[illegible] Inc., 12.5cts.
Platignum, 0.01p
South Staffordshire Waterworks, 3.5[illegible] (Frmly. 5pc) 1.75pc
TR Natural Resources Inv. Tst., 3.5p
Thomas Nationwide Transport, $A3cts.
Tilling Hldgs., 17.5cts.
Whessoe, 2p

**SATURDAY, JUNE 26**

DIVIDEND & INTEREST PAYMENTS—
Hepworth (J.) 0.79p
Law Service 6½pcPf., 2.275pc. Do. U 4¼pc
Millet (F.) (Textiles) 1.44p

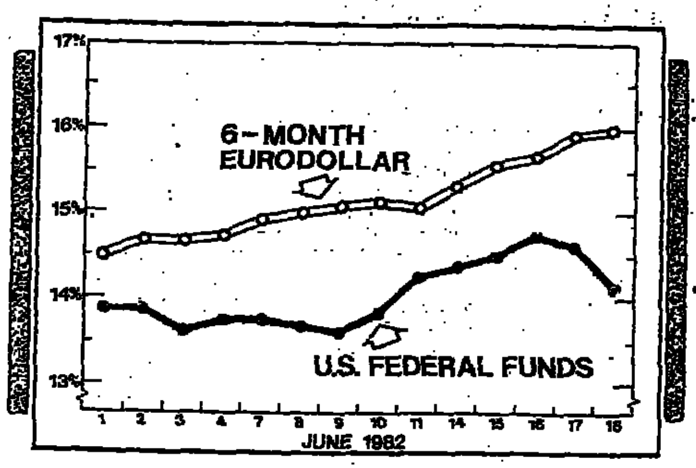
# INTERNATIONAL CAPITAL MARKETS

INTERNATIONAL BONDS

## A change in psychology

LAST WEEK'S dramatic rise in short-term interest rates has led to a major change in the psychology of the international bond market which is suffering an across-the-board sell-off rivalling the problem of last year.

Eurocurrency deposit rates tell the story; the six-month Eurodollar level nudged above 16 per cent on Friday, a one percentage point increase on the week. The Euro D-mark rate remains 9 per cent and Herr Karl Otto Poehl, president of the Bundesbank, is said to have told the West German cabinet he sees little scope for a further reduction in European interest rates this year.




In Switzerland, where short-term deposit rates moved up by ½ to ⅝ of a point last week, the six-month deposit rate increased by more than one to close at 6⅝ per cent.

In the slumping Eurodollar bond market, prices were down by almost three points on the week. Euro D-mark bond prices fell by nearly two points on average and Swiss franc foreign bond prices had declined 1½ point by Friday.

The shakeout, now close to a month old, is possibly more serious than the one which occurred last year. More paper is being unloaded by dealers and there is no sign whatsoever of encouraging news from the U.S.

All this suggests that the dire predictions of Dr Henry Kaufman of Salomon Brothers are coming true. An increasing number of Eurobankers are taking the view that higher interest rates are here to stay. This is paralysing the Eurobond market, already burdened by a surplus of new issues.

What precisely is happening? Firstly, it seems that the realisation of a $100bn U.S. budget deficit has sunk in and is causing huge worries about the U.S. Treasury's finance of it.

Secondly, U.S. corporations, already pressed by the recession, are finding the pressure on cash flow difficult to bear. Massive corporate borrowings of short-term money are in turn affecting short-term dollar interest rates.

This, in turn, is upsetting the international bond market. The 16½ per cent rate reached on Friday on Eurodollar six-month depostit money warrants was a level few bankers expected to see so suddenly.

As the interest rates have firmed, the U.S. dollar's overall exchange rate has soared to its highest level in 12 years. The dollar/D-mark exchange rate closed at DM 2.48 on Friday, against DM 2.38 a week before. The dollar/Swiss franc rate was SwFr 2.12 compared to SwFr 2.04.

The strength in the U.S. dollar has led to two trends: it has tempted some non-dollar based investors to cash in their chips and realise an exchange gain and it has acted as a disincentive for non-dollar based investors to invest in Eurodollar bonds.

Given the current interest rate picture, a number of investors are shifting from Eurobonds to term deposits. It makes sense to do this because the returns are simply more attractive.

The only way out of this conundrum, say most Eurobankers, would be some astonishingly good news from the U.S. side of the Atlantic. But the U.S. cavalry has not arrived. Dr Kaufman's words on Friday spell out a depressing scenario: "The spectre of the Treasury's enormous demands for credit in the second half of this year is drawing ever closer."

In the Eurobond market, only a few brave souls dared to launch new issues last week. Morgan Stanley succeeded with a $200m floating rate note issue for the Bank of Nova Scotia.

It found itself pushing hard, however, with its $50m five-year straight bond for Ohio Edison. The original coupon indication was 16½ per cent, a price which was realistic when announced. By Friday, however, Morgan Stanley was no longer talking about 16½ per cent; it faced the prospect of substantially improving the terms.

S. G. Warburg launched a $50m to $75m seven-year issue for Britain's Finance for Industry (FFI) with a 15¼ per cent coupon at par. On Friday the paper was changing hands at 96¼ to 96½ and not much more than a third of the issue was said to have been placed.

In the West German market high dollar rates and the weakened D-mark caused new issues to trade at discounts of as much as 3 per cent. The average yield of 782 outstanding Euro D-mark bond issues stood at 9.75 per cent on Friday, against less than 9.50 per cent a fortnight ago. The market was closed on Thursday for a national holiday.

In the currency-sensitive Swiss franc foreign bond market the party is over—the strong U.S. dollar and increased local interest rates are proving a match for the market.

As this week begins the question on every Eurobond trader's tongue must be: "How can I keep my head down and avoid more losses?". This is not the worst shake-out the Euromarket has seen, but it is certainly proving a painful one.

**Alan Friedman**

US CORPORATE FINANCE

## Equity for debt craze catches on

A NEW craze — swapping equity for debt — is sweeping through America's boardrooms. Investment bankers claim that it's one of the smartest financial manoeuvres that a company can make in present conditions. But to an outsider, the transactions in most cases look more like a waste of time and money.

Salomon Brothers pioneered the idea last August when it arranged for Quaker Oats to swap new shares for some of its outstanding corporate bonds. Since then, there have been more than 100 such transactions, and the face value of the debt retired by them amounts to about $7bn.

All sorts of businesses have been involved—including banks, steelmakers, utilities and consumer goods specialists — and over 65m new shares have been issued in swap deals.

Salomon has been by far the most active banker in the field, with some 37 transactions under its belt. Next comes Goldman Sachs, with about a score and Morgan third with roughly a dozen.

In a typical swap, an investment bank buys through the market an agreed amount of a company's debt. Because of the way interest rates have moved in recent years, it will be able to do this at a substantial discount to the face value. The company then issues enough new shares for the investment bank to pay for the bonds, pricing the shares at a discount of perhaps 3 per cent to 3½ per cent on the market price as a sort of underwriting fee. The bank then sells the shares off to its investment clients.

If the company bought the bonds itself, it would be faced with a tax liability on the difference between its purchase price and the face value—its book keeping profit on the transaction.

The Internal Revenue Service has not yet ruled formally on stock for debt swaps, but The Street is convinced that, provided the investment bank acts as a principal in the deal, there should be no tax liability. That means the bank is at risk when it is selling the new shares—but only to movements in the market as a whole. The new shares are not priced until after details of the transaction are announced, so that investors are not taken by surprise when the new shares are offered for sale.

As a result, the company gets a tax-free extraordinary profit, which is handy when business conditions are as tough as they are today. The company also bolsters its balance sheet by reducing the debt and increasing the proportion of equity. If that sounds too good to be true, it is.

Long-term debt costing 6 per cent or 7 per cent *before* tax is enormously attractive to a borrower at a time when Uncle Sam is having to pay well over 13 per cent for new money. From the point of view of an existing shareholder, it is something that a company should hang on to for as long as possible. To swap it for equity at a time when shares are yielding around 7 per cent (on dividends paid from *after* tax profits) makes little sense.

Take U.S. Steel as an example. Its shares now stand at less than one-third of book value, and not much more than half their 12-month high. Yet it was prepared to issue 5m new shares—worth nearly $100m—at a discount to a very depressed market price the other week. The proceeds were used to pay off debt, some of which was not due until 2001 and none of which cost more than 7¾ per cent. For existing shareholders that represents a significant measure of dilution.

Of course it will be able to report a profit on the deal—perhaps as much as $80m or so. But this will be really no more than an accounting item. The company has merely exchanged the benefits of long-term cheap money—which would have bolstered earnings in future years—in return for a one-off gain in the current year.

There are circumstances in which such transaction might be justified, some of which might apply to U.S. Steel. For instance, the borrower may be facing sinking fund obligations which have to be met one way or another. It may not be paying much corporation tax, which would mean that its debt is costing roughly the same both before and after tax. It may believe that its shares are ridiculously over-priced, or that there is no scope for paying higher dividends in future years.

But apart from such rather special cases, it is hard to see how anyone benefits from swapping expensive equity for cheap debt—apart from the investment bankers.

**Richard Lambert**

CREDITS

## Argentine debt re-scheduling seen as inevitable

THE RELIEF of Port Stanley offered little parallel relief to the beleaguered Eurocredit markets last week as international bankers accepted that the British freeze on Argentine assets is to continue as long as there is no formal cessation of all hostilities in the South Atlantic.

For British banks this meant there was no immediate reason for a let-up in their efforts to persuade their foreign countreparts to share out interest payments received from Argentina. The volume of shared payments is growing, but there are a number of institutions, notably in Japan and France which are holding back.

For Argentina it meant that the financial stranglehold implied in the sanctions would grow gradually tighter at a time when foreign debt servicing is already stretching the country's financial resources.

Even after the assets freeze is lifted most bankers generally agree that Argentina will have difficulty in obtaining medium-term credit. Concern has switched from the immediate Falkland's problem to the intense political and economic instability in Buenos Aires.

As a result, a rescheduling seems inevitable to many international bankers, though most also say that this need not be as harrowing and dramatic a process as that seen in Poland.

Argentina's food surplus and energy self-sufficiency give the country a fundamental economic strength that could lead to a smooth rescheduling provided talks can begin in time. The result would be more a re-structuring of bank debt, rather than a long-drawn out rescheduling covering bond issues and official credits.

But this relatively optimistic scenario is still not enough to lift the gloom on lending to the Latin American continent generally. Fears that political destabilisation could spread to other countries persist, and the latest rise in Eurodollar interest rates will have added considerably to an already severe burden of debt service in most countries of the region.

Mexico's latest $2.5bn Eurocredit has elicited only about $350m in syndication despite three extensions of the subscription period.

The extensions have delayed the signing of the credit and the $1bn bridging facility provided by some of the lead managers has therefore been extended for about 10 days to July 7. Meanwhile, Mexican public sector agencies continue to borrow heavily at very short term.

Mexico's borrowing requirements—a gross need of $25bn to $28bn is forecast this year—are so large that it will have to return to the market fairly shortly, but bankers expect a slight pause to analyse the current situation.

Similarly Venezuela, which failed to agree with its bankers on terms for a jumbo syndicated credit earlier this month, is continuing with short-term borrowing by public-sector agencies. Transactions reported in the market include a $315m, one-year loan for the development agency Corporacion Venezolana de Fomento and a $310m short-term loan for the water authority INOS.

**Peter Montagnon**

### CURRENT INTERNATIONAL BOND ISSUES

| Borrowers | Amount m. | Maturity | Av. life years | Coupon % | Price | Lead manager | Offer yield % |
|---|---|---|---|---|---|---|---|
| **U.S. DOLLARS** | | | | | | | |
| FFI‡ | 75 | 1989 | 7 | 15¼ | 100 | SG Warburg | 15.250 |
| Bk. of Nova Scotia†‡ | 200 | 1994 | 12 | 5¼Φ | 100 | Morgan Stanley | — |
| Ohio Edison | 50 | 1987 | 5 | * | * | Morgan Stanley | * |
| ECSC‡ | 30 | 1987 | 4¾ | 14¾ | 99⅞ | European Bnkg. Co. | 14.961 |
| **CANADIAN DOLLARS** | | | | | | | |
| Gas Metropolitan‡ | 20 | 1990 | 8 | 17½ | 99½ | Wood Gundy | 17.430 |
| **D-MARKS** | | | | | | | |
| Canon **§‡ | 40 | 1989 | 7 | 6¼ | 100 | Bayr. Landesbk., Nikko Secs. | 6.250 |
| **SWISS FRANCS** | | | | | | | |
| BNP‡ | 100 | 1992 | — | 6¾ | 99 | UBS | 6.892 |
| Sears Roebuck**‡ | 200 | 1988 | — | 6½ | 100 | UBS | 6.500 |
| Kansai Electric**‡ | 100 | 1987 | — | 6½ | 100 | UBS | 6.500 |
| Achilles Corp.**§‡ | 30 | 1987 | — | 6½ | 100 | UBS | 6.500 |
| Nippon Carbon**§ | 35 | 1987 | — | * | 100 | CS | * |
| Hilti AG**‡ | 35 | 1987 | — | 6¾ | 100 | CS | 6.750 |
| **GUILDERS** | | | | | | | |
| IADB‡ | 100 | 1992 | 10 | 10¾ | 99 | ABN, Amro Bank | 10.919 |
| OKB**‡ | 75 | 1987 | 5 | 10½ | 100 | Amro Bank | 10.500 |
| **KUWAITI DINARS** | | | | | | | |
| OKB | 7 | 1987 | 5 | 12⅜ | * | KFTCIC, KIIC, KIC | * |
| **YEN** | | | | | | | |
| Nordic Invest. Bank‡ | 10bn | 1992 | 9 | 8.4 | 99.45 | Daiwa Secs. | 8.663 |
| **ECUs** | | | | | | | |
| EIB | 40 | 1989 | 6 | 13½ | * | Kredietbank Intl., Soc. Gen. de Banque | * |

* Not yet priced. ‡ Final terms. ** Placement. † Floating rate note. Φ Minimum. § Convertible. Note: Yields are calculated on AIBD basis.

# INTERNATIONAL CAPITAL MARKETS AND COMPANIES

**U.S. BONDS**

## Rise in prime rate expected soon

EVERYTHING IS pointing towards an imminent rise in the U.S. prime rate, perhaps as early as this week. The prime at most major U.S. commercial banks has stood at 16½ per cent since February 23, but the market now expects it to increase to about 17 per cent reflecting the sudden spurt in U.S. interest rates in recent days.

It is ironic that interest rates should be accelerating again at a time when the market generally recognises that the Fed has been adopting a relatively tolerant approach to monetary growth. After months of agonising over the Fed's tight squeeze on money, Wall Street was hoping for some relief on the interest rates front.

But for a variety of technical and psychological reasons this has simply not happened. The impact of a more accommodating Fed has been wiped out it seems by the strong seasonal loan demand exacerbated by the continuing ripple effects of the Drysdale affair.

These factors, and not any tightening on the part of the Fed, kept the Fed funds rate up in the 14 per cent range all last week compared to 13½ per cent the week before.

Indeed, the Fed did intervene in the overnight market with system repurchase orders which supply reserves to the market and should normally bring the funds rate down. But despite the Fed's long awaited action, Fed funds continued to trade at a *disappointing mid 14 per cent* level.

Because of the heavy loan demand banks have been borrowing in the overnight market. Moreover, an increasing number of dealer banks have turned to the Fed funds market in the wake of the Drysdale fiasco instead of borrowing through loans using Treasury securities as collateral.

By the end of last week, the Treasury 14 per cent 30-year long bond was down at 98¾ from as much as 107 barely over a month ago. As for corporate bond yields, they rose almost 50 basis points during the past week. The Treasury's latest two-year notes auction last Wednesday was a disaster with little retail demand either from domestic or foreign buyers.

The market does not expect the situation to improve until Fed funds come down to around 13 per cent. While this could still happen if the Fed maintains its tolerant approach to monetary policy, the market is beginning to become nervous that substantial growth in M-1 next month could reduce the Fed's flexibility in coming weeks.

Indeed, the Fed is again under attack from the Administration with the Treasury apparently conducting a major review of monetary policy. Frustrated by the state of shambles in the credit market, the Treasury is apparently considering ways of restricting the independence of the Fed. The move appears to reflect the Administration's dismay for the failure so far of its economic recovery programme to appease the credit market and a desire to turn the Fed into a scapegoat.

In recent weeks, the Fed has indicated it was no longer so preoccupied by the fact that M1 has been growing above its annual target. Until the end of this week, the market has been expecting the Fed to continue to tolerate M1's deviation from the target and made no change in its market intervention policy when the Federal open-market committee meets next month.

On the other hand, Mr Paul Volcker, the Fed chairman, *emphasised in his testimony on* Capitol Hill last week: "It would be shortsighted for the Federal Reserve to abandon a strong sense of discipline in monetary policy in an attempt to bring down interest rates."

At the same time, the market is likely to face pressure from another angle in coming weeks. Already there is growing evidence that the U.S. economy is poised for recovery — albeit a recovery of modest proportions.

The combination of all these factors is doing little to lift the market's depressed spirits. After all, the Treasury's record $96bn in credit demands for the second half of the year is now literally on the market's doorstep.

**Paul Betts**

U.S. INTEREST RATES (%)

| | Week to June 18 | Week to June 11 |
|---|---|---|
| Fed. funds wkly. av. | 14.38 | 13.91 |
| 3-month Treas. bills | 12.67 | 11.91 |
| 3-month CD | 15.00 | 13.80 |
| 30-year Treas. bonds | 14.19 | 13.63 |
| AAA Util. | 16.13 | 16.00 |
| AA Industrial | 15.63 | 15.50 |

In the week to June 9 M1 rose $1.4bn to $454.2bn.
Source: Salomon Brothers (estimates).

## Mesa abandons battle with Gulf for Cities Service

BY PAUL BETTS IN NEW YORK

GULF OIL has come a big step closer to acquiring Cities Service, the 20th largest U.S. oil company, with the decision by Mesa Petroleum to drop its rival bid.

Mesa said it will sell to Cities Service for $225m the 5 per cent stake in Cities Service it had accumulated in the past 18 months.

The companies will drop all litigation and end the takeover bids each had made for the other during a bitter battle.

Cities Service accepted last Thursday an offer of $63 a share in cash and securities from Gulf.

Mesa has apparently decided it was fruitless to counter the $5bn offer from Gulf which is the U.S.'s sixth largest oil company.

Under peace terms spelt out in a joint statement Mesa has agreed that in the next five years it will not buy any Cities Service shares or seek to influence the affairs of the rival company as long as Cities Service "does not take any such action with respect to Mesa."

Mesa is not walking away empty handed. It will make a tidy profit of $44m before tax from the sale of its 4.1m Cities Service shares to Cities Service. Cities Service will pay Mesa $55 a share for the stock Mesa had acquired at an average price of $44.25.

The $55 a share price was a compromise between Mesa's average purchase price and Gulf's $63 a share offer.

The agreement between Cities Service and Mesa removes the major obstacle to Gulf's bid. The only real one left could come from U.S. anti-trust authorities. But although in the past a merger between two major oil companies would have been unthinkable, Washington is currently adopting a far more tolerant attitude.

Nevertheless, Gulf has acknowledged that the merger could raise some anti-trust objections in certain petrol retailing markets in one or two states. It would be able to get round these problems by divesting any troublesome downstream assets it acquires. This would not worry Gulf, whose prime purpose is to buy Cities Services producing oil and gas assets and the company's substantial undeveloped acreage in the U.S.

Another possible obstacle could still come *from a rival* bid by a major oil company. But this is regarded as unlikely since Gulf is already paying a generous price and another major oil company would have to come in with a hostile offer which would *stand far less* chance of success than a friendly bid.

Although some analysts consider Gulf's offer high, the company's move reflects Gulf's urgent longer-term needs to replace and increase its domestic U.S. oil and gas reserves. Moreover, several analysts say Gulf is paying a good price for a company with a break-up value currently put at between $90 and $100 a share.

## Advance in earnings at KemaNobel

By Our Nordic Editor in Stockholm

KEMANOBEL, the Swedish chemicals group achieved earnings of about SKr 80m ($13.3m) in the first four months of the year, an increase of about SKr 50m over the corresponding period of 1981. Consolidated earnings for the whole of 1981 were only SKr 50.8m.

Sales advanced by about SKr 200m to SKr 1.4bn. The company expects to maintain the rate of improvement in profit performance through the rest of the year.

The market for petrochemicals *is still characterised* by over-supply and low prices, KemaNobel says. Its profit recovery, which contrasts with the continuing downward plunge in most other European plastics and chemicals companies, is attributed to last year's adjustment of output to demand.

Other group operations — adhesives, resins, consumer products and bleaching chemicals — have continued to perform well,

## PKbanken profits up 59% at four months

BY WILLIAM DULLFORCE, NORDIC EDITOR, IN STOCKHOLM

PKBANKEN, Sweden's state-owned commercial bank, raised profits by SKr 102m, or by 59 per cent, to SKr 274m ($45.6m) in the first four months of 1982 compared with the corresponding period of 1981.

Income climbed by 24 per cent to SKr 832m while costs rose by 12 per cent to SKr 558m. Included in the costs are credit *losses of SKr 30m* and unrealised losses of SKr 9m on foreign currencies, which are related to U.S. dollar loans raised for the bank's investments abroad.

The increase in results from last year's to this year's first four months is unusually big because of the depressed operating conditions for Swedish banks at the beginning of 1981. PKbanken does not expect to increase profits at the same rate during the rest of the year but is forecasting for 1982 as a whole a rise of some 20 per cent on last year's SKr 573m.

The operating results for the PKbanken group rose by SKr 113m to SKr 313m in the four-months with the subsidiary in Luxembourg showing the largest improvement.

## Euro-Clear refunds fees

EURO-CLEAR, the Brussels-based international bond clearing system, is refunding US$1.4m of clearance and delivery fees to its 1,200 institutional members, Alan Friedman reports.

The refund covers all fees paid in the six months to May 31. Mr Ian Speers, chairman of Euro-Clear, said the decision reflected "the most active period ever in both the primary and secondary markets for international debt securities" and nationally traded securities" and other favourable factors.

Euro-Clear's turnover of $236.5bn for December last year to May was 144 per cent higher than a year earlier.

## INTERNATIONAL APPOINTMENTS

### European Investment Bank posts

● The Board of Governors of the EUROPEAN INVESTMENT BANK, *consisting of one Minister* from each of the ten member states of the European Community, has appointed the bank's new management committee—the EIB's president and five vice-presidents—for the next statutory six-year term of office. The management committee is the full time "motor" of the bank, controlling all current operations, recommending decisions to the directors and then carrying responsibility for their implementation. The president presides at meetings of the board of directors.

The composition of the committee is now as follows: president, Mr Yves Le Portz (appointment renewed, French); vice-presidents, Mr Horst-Otto Steffe (appointment renewed, German); Mr C. Richard Ross (appointment renewed, British); Mr Arie Pais (new appointment, Dutch); Mr Lucio Izzo (new appointment, Italian); and Mr Noel Whelan (new appointment, Irish). Two vice-presidents who did not seek re-appointment have retired: Mr Giorgio Bombassei Frascani de Vettor (Italian) and Mr Maurits Esselens (Belgian).

Mr Pierre Werner, Prime Minister, Minister of State and Governor for Luxembourg, takes over chairmanship of the bank's board of governors until the 1983 annual meeting. Mr *Corneille* Brück, President-Directeur of the Caisse d'Epargne, Luxembourg, was appointed chairman of the bank's Audit Committee.

● Mr John Heywood will be retiring as a managing director of JARDINE MATHESON AND CO. on July 9. His responsibilities *for the international* operations of the Jardine Matheson Group will be taken over by Mr Simon Keswick who will be appointed a managing director of the company from July 10. Mr Keswick joined the company in 1962.

● Mr Brian Evans has been appointed a director of ROLLS-ROYCE (INDIA). He also becomes general manager, based in New Delhi and succeeds Mr A. M. (Max) Scott, who has retired. He was commercial executive-international collaboration.

● Mr George F. Knapp has been appointed director of market and product management for telecommunications and electronics at ITT Europe in Brussels. Mr Knapp was elected a vice-president of ITT in 1976.

● Mr Charles S. Sanford Jr. will become president of BANKERS TRUST COMPANY upon the retirement of Mr John W. Hannon Jr. at the end of this year. Mr Sanford, who is currently executive vice president in charge of resources management and a member of the bank's management committee, will also succeed Mr Hannon as president of Bankers Trust New York Corp., the bank's parent company. The appointments take effect on January 1 1983. Together with Mr Edward A. Lesser, executive vice president in charge of fiduciary and a member of the bank's management committee, Mr Sanford has been elected a director of the bank and the

Mr Charles S. Sandford Jr

● Mr David Elyan, secretary of AGB Research, Mr Frits Becht, managing director of AGB Netherlands and Mr Maarten Hartsuiker, joint managing director of Intomart, have been appointed to the board of ASPEMAR. Miss Christine Ellinger, formerly commercial manager of Gfk-Belgium, has been appointed general manager.

● Mr Harrison L. Townes has been appointed president, chief executive officer and chairman of the board of the recently formed TOKLAN OIL CORPORATION. In 1981 Harrison L. Townes was acquired by Par Investment Corporation. Out of this merger was born Toklan Oil Corporation.

● Mr Edward A. Knight has been appointed managing director of WEEKS PETROLEUM, Westport, Conn.

● Mr Chris Tewell has been appointed as a director in New York of MORGAN GRENFELL INC. His principal role is to establish and develop a lease packaging capability in the U.S. market.

● Mr W. A. Rogers has been appointed to the newly-created corporate position of director of product research and development for the DOW CHEMICAL COMPANY. He has been serving for the past two years as director of division research and development for Dow Chemical USA in Midland, Michigan.

● *FRITZSCHE DODGE AND OLCOTT INC.* has appointed Mr Hans Van Essen as vice president—fragrance development and chief perfumer. Mr Van Essen has extensive experience in the worldwide fragrance industry, having been employed most recently by Firmenich Inc. and Roure Bertrand Dupont.

Mr Hans Van Essen

● INTERNATIONAL THOMSON ORGANISATION, Toronto, has made the following appointments: Mr T. L. Cross, chairman and chief executive officer of Warren, Gorham and Lamont, Inc. joins the board of International Thomson Holdings Inc, the principal U.S. holding company of International Thomson Organisation Limited. Mr J. F. Lebby, chairman of Wadsworth Inc., is appointed deputy chairman of International Thomson Organisation Inc. Mr R. S. Smith, chairman and chief executive officer of Callaghan and Co, Mr D. R. Warnke, president and chief executive officer of Wadsworth, Inc, and Mr J. A. S. Gill, vice-president, chief financial officer and secretary of International Thomson Holdings Inc, join the board of International Thomson Organisation Inc. International Thomson Organisation Inc is the holding company for International Thomson's U.S. information and publishing interests.

● The ROYAL BANK OF SCOTLAND has appointed Mr Leslie A. Haig, at present manager (international) at the bank's head office in Edinburgh, as senior representative at its Houston representative office in Texas, from July 1.

● Mr Achim Weers has been appointed managing director of MoDoCell AG, Wiesbaden. He is at present head of pulp sales at G. Schürfeldt and Co., Hamburg. Mr F. K. von Hutten has been appointed deputy managing director of MoDoCell, Wiesbaden.



## FT INTERNATIONAL BOND SERVICE

| U.S. DOLLAR STRAIGHTS | Issued | Bid | Offer | Change on day | Change on week | Yield |
|---|---|---|---|---|---|---|
| Aetna Life 15 86/97 ... | 150 | 99½ | 99⅝ | −0½ | −1½ | 15.17 |
| Amax Int. Fin. 16⅞ 92 | 75 | 97⅞ | 98⅜ | −1½ | −3¼ | 16.61 |
| Amex O/S Fin. 14¼ 89 | 75 | 94½ | 94⅞ | −0⅝ | −2¼ | 15.61 |
| APS Fin. Co. 16¾ 89 ... | 75 | 98½ | 99 | −1⅛ | −2⅜ | 16.50 |
| ATT 14½ 89 | 400 | 99¾ | 100¼ | −0⅝ | −1⅜ | 14.21 |
| Baker Int. Fin. 0.0 92 | 225 | †24½ | 25 | −0⅛ | −1½ | 15.51 |
| BHP Finance 14¾ 89 ... | 150 | 95 | 95½ | −0⅝ | −2⅛ | 15.91 |
| Bk. Amer. NT SA 12 87 | 200 | 89⅜ | 89⅞ | −0⅛ | −1⅜ | 15.15 |
| Bk. Montreal 14½ 87 ... | 100 | 96⅛ | 96⅝ | −0¼ | −0⅞ | 15.59 |
| Bque. Indo Suez 15 89 | 100 | 95⅞ | 96⅜ | −0¼ | −1½ | 16.01 |
| British Col. Hyd. 14½ 89 | 200 | 97¼ | 97⅝ | −0½ | −1⅝ | 15.37 |
| Burroughs Int. 15¾ 88 | 50 | 99⅝ | 100⅛ | −0½ | −1 | 15.72 |
| Canadair 15½ 87 | 150 | 98⅞ | 99⅜ | −0⅛ | −1⅛ | 15.71 |
| Canadian Pac. 14⅝ 92 | 75 | 95 | 95½ | −0⅝ | −1½ | 15.59 |
| Carolina Power 16½ 89 | 60 | 100⅛ | 100⅝ | −0½ | −1⅛ | 16.33 |
| CIBC 16 87 | 100 | 99¼ | 99¾ | −0⅝ | −1½ | 16.09 |
| Citicorp O/S 15 84/92 | 100 | 98⅞ | 99¼ | −0¼ | −1½ | 15.57 |
| Citicorp O/S 15½ 86/97 | 125 | 99¼ | 99¾ | −0⅝ | −0⅝ | 15.63 |
| CNA 15⅞ 97 | 75 | 96 | 96½ | −1⅞ | −3½ | 16.52 |
| Con. Illinois 15⅜ 89 ... | 100 | 99½ | 100 | −0⅝ | −1½ | 15.75 |
| Duke Pwr. O/S 15½ 89 | 60 | 95½ | 96 | −2 | −3¾ | 16.54 |
| Dupont O/S Cap. 0.0 90 | 300 | 33¼ | 33¾ | −0¼ | −1⅝ | 15.37 |
| ECSC 14¾ 87 | 50 | 95⅜ | 95⅞ | −1⅛ | −3⅛ | 16.07 |
| EIB 15½ 89 | 150 | 98¼ | 98¾ | −0⅝ | −1⅝ | 15.82 |
| Eksportfinans 14½ 89 ... | 50 | 94⅞ | 95⅜ | −0½ | −1⅜ | 15.68 |
| Gen. Elec. Credit 0.0 92 | 400 | 25⅝ | 26⅛ | −0⅝ | −1½ | 15.01 |
| Gen. Elec. Credit 0.0 93 | 400 | 22⅞ | 23⅜ | +0⅛ | −1⅛ | 14.72 |
| Getty Oil Int. 14 89 | 125 | 95½ | 96 | −0½ | −1⅛ | 15.01 |
| GMAC O/S Fin. 16 88 | 150 | 98⅜ | 98⅞ | −1⅞ | −2⅞ | 16.39 |
| GMAC O/S 15¾ 85/97 | 100 | 97¼ | 97¾ | −0½ | −1½ | 16.35 |
| GMAC O/S Fin. 15 89 | 125 | 95¾ | 96¼ | −0¼ | −0⅝ | 15.98 |
| GMAC O/S Fin. 15 87 | 100 | 96¾ | 97¼ | −0⅝ | −0⅝ | 15.90 |
| Gulf Canada Ltd 14¾ 92 | 100 | 95 | 95½ | −1⅞ | −3⅛ | 15.69 |
| Gulf Oil 14¾ 94 | 175 | 97¼ | 97¾ | −0½ | −1 | 14.70 |
| Gulf Oil Fin. 0.0 92 ... | 300 | 25⅜ | 25⅞ | −0⅝ | −1½ | 15.06 |
| Gulf States O/S 16 90 | 60 | 96¼ | 96¾ | −0⅝ | −1⅞ | 16.79 |
| Int-Am. Dv. Bk. 15¾ 87 | 55 | 95⅜ | 95⅞ | −1⅝ | −3⅜ | 16.31 |
| Japan Dev. Bk. 15½ 87 | 50 | 100⅜ | 100⅞ | −0⅝ | −1⅜ | 15.23 |
| New Brunswick 16¼ 89 | 75 | 98⅞ | 99⅜ | −1⅛ | −2½ | 16.41 |
| Ontario Hydro 14⅞ 89 ... | 150 | 98⅜ | 98⅞ | −0¼ | −0⅝ | 15.06 |
| Pac. Gas & El. 15¾ 88 | 80 | 100⅞ | 101⅜ | −0⅝ | −1½ | 15.40 |
| Pac. Gas & El. 15½ 89 | 45 | 99⅜ | 99⅞ | −0⅝ | −2 | 15.56 |
| J. C. Penney Gl. 0.0 94 | 350 | 18⅝ | 19⅛ | −1⅛ | −1⅛ | 15.37 |
| Phillips Petrol 14 89 ... | 200 | 93⅜ | 93⅞ | −0⅝ | −1⅛ | 15.55 |
| R.J. Rynlds. O/S 0.0 92 | 400 | 25 | 25½ | −0⅛ | −1⅛ | 15.30 |
| Saskatchewan 16 89 ... | 125 | 100¼ | 100¾ | −0½ | −1⅛ | 15.82 |
| Shell Canada 14½ 92 ... | 125 | 96 | 96½ | −0⅝ | −1⅛ | 15.11 |
| Spain 15¾ 87 | 100 | 98⅞ | 99⅜ | −0⅛ | −0⅝ | 16.04 |
| Superior O/S Fin. 14 89 | 125 | 91⅞ | 92⅜ | −1¼ | −2⅛ | 15.94 |
| Swed. Exp. Cr. 15¾ 88 | 100 | 97¼ | 97¾ | −0⅝ | −1⅜ | 15.83 |
| Swed. Exp. Cr. 14¾ 90 | 100 | 94½ | 95 | −0⅝ | −1⅛ | 15.94 |
| Swed. Exp. Cr. 0.0 94 | 200 | 18 | 18½ | −0⅛ | −2 | 15.61 |
| Union Carbide 14¾ 89 | 150 | 95⅝ | 96⅛ | −1⅞ | −2⅞ | 15.74 |
| Wells Fargo I. F. 15 87 | 75 | 97½ | 98 | −0¼ | −1¼ | 15.64 |
| World Bank 15¾ 88 ... | 250 | 98¼ | 98¾ | −0⅝ | −1¼ | 15.60 |
| World Bank 14¾ 87 ... | 500 | 94⅞ | 95⅜ | −0½ | −1 | 15.72 |

Average price changes... On day −0⅝ on week −1½

| DEUTSCHE MARK STRAIGHTS | Issued | Bid | Offer | Change on day | Change on week | Yield |
|---|---|---|---|---|---|---|
| Asian Dev. Bank 9¼ 92 | 150 | 98¼ | 99 | −0¼ | −0¼ | 9.46 |
| Australia 9¾ 91 | 300 | 102¾ | 103¼ | +0¼ | −0⅛ | 8.92 |
| Australia 9½ 91 | 200 | 102½ | 103 | +0⅛ | −0¼ | 8.87 |
| Barclays O/S In. 8⅝ 94 | 100 | 93¾ | 94¼ | −1¼ | −2 | 9.20 |
| Canada 8½ 89 | 200 | 100¼ | 100¾ | −0¼ | −0⅛ | 8.39 |
| Comp. Tel. Esp. 10½ 92 | 100 | 99⅞ | 100¼ | −0⅛ | −0⅛ | 10.48 |
| Cred. Foncier 8¾ 92 | 100 | 95⅛ | 95⅝ | −0⅞ | −1⅛ | 9.48 |
| Denmark 10 88 | 100 | †100⅞ | 101⅜ | +0½ | +0½ | 9.68 |
| Denmark 10⅛ 92 | 100 | †101⅛ | 102⅛ | −0¼ | +0⅛ | 9.80 |
| EDF 9⅞ 92 | 100 | †99⅝ | 100½ | −0⅛ | −0⅞ | 9.84 |
| EEC 9¾ 94 | 200 | 101¾ | 102⅝ | −0½ | −1¼ | 9.49 |
| EIB 8¾ 92 | 100 | 93⅞ | 94⅜ | −1¼ | −2⅛ | 8.34 |
| Int.-Am. Dev. Bk. 9 92 | 150 | 97¼ | 98 | −0⅝ | −1¼ | 9.37 |
| Ireland 10⅛ 86 | 100 | 100⅝ | 101⅛ | −0½ | −1 | 9.87 |
| Nacnl. Financiera 11 90 | 150 | 97¼ | 97⅜ | −0½ | −1½ | 11.51 |
| Nat. West. 9⅞ 92 | 100 | †103¾ | 103¼ | +0⅛ | −0½ | 9.33 |
| OKB 9½ 86 | 150 | 100⅝ | 101⅛ | −0⅛ | −0½ | 9.46 |
| Philip Morris 8¼ 90 | 100 | 98⅛ | 98⅝ | −0⅜ | −0⅜ | 8.76 |
| Quebec 10¼ 92 | 150 | 102⅞ | 103⅜ | +0⅛ | −0⅛ | 9.82 |
| Renfe 10 92 | 100 | 98⅝ | 98⅞ | −1 | −1⅛ | 10.24 |
| Tauernautobahn 9⅞ 94 | 50 | †101 | 101½ | −0½ | −0⅝ | 9.68 |
| World Bank 9½ 89 | 100 | 101 | 102 | −0⅝ | −0½ | 9.18 |
| World Bank 8½ 92 | 200 | 94⅛ | 94⅞ | −1⅛ | −3⅛ | 9.37 |

Average price changes... On day −0⅛ on week −0⅞

| SWISS FRANC STRAIGHTS | Issued | Bid | Offer | Change on day | Change on week | Yield |
|---|---|---|---|---|---|---|
| Air Canada 6¼ 92 | 100 | 99 | 99½ | −0⅞ | −1⅛ | 6.35 |
| Asian Dev. Bank 7 92 | 100 | 100¼ | 100½ | 0 | −0¼ | 6.94 |
| Aucalse 7¾ 92 | 80 | 97 | 97½ | +0⅛ | −0⅛ | 8.16 |
| Australia 6½ 94 | 100 | 101 | 101½ | −1 | −2⅛ | 6.34 |
| Cse. Nat. l'Energie 7 92 | 100 | 100⅞ | 101⅜ | 0 | 0 | 6.83 |
| CFE-Mexico 8¼ 92 | 50 | 97½ | 98 | −0½ | −0⅞ | 8.59 |
| Co-op. Denmark 8⅝ 92 | 25 | 104 | 104½ | −0½ | −1 | 7.75 |
| Crown Zellrbch. 6¾ 92 | 100 | 97½ | 97¾ | +1½ | −3⅝ | 7.09 |
| Europarat 7¼ 92 | 100 | 100 | 100½ | −0⅛ | −0½ | 7.21 |
| First City Fin. 8¼ 92 | 25 | 101⅛ | 101½ | −0⅝ | −1 | 8.03 |
| Ind. Fund Finland 6¾ 92 | 30 | 97¼ | 98 | −0⅝ | −0⅛ | 7.05 |
| Kobe City 6½ 92 | 100 | 98½ | 98¾ | −0¼ | −1¼ | 6.31 |
| Kommunlane 7¼ 92 | 35 | 99 | 99¼ | −1½ | −1½ | 7.37 |
| Manitoba 7 92 | 100 | 102½ | 102¾ | −1⅛ | −2⅛ | 6.62 |
| Mitsui OSK 6½ 92 | 100 | 98 | 98½ | −1⅛ | −2 | 6.75 |
| National Pwr. Co. 8 92 | 30 | 102½ | 102¾ | −0⅛ | −1 | 7.60 |
| Nippon T. and T. 6⅝ 92 | 100 | 100 | 100½ | −2 | −2⅛ | 6.58 |
| OKB 7¾ 92 | 100 | 103 | 103½ | −0⅞ | −0⅝ | 7.26 |
| Ost. Postspar 7½ 92 | 100 | 101¾ | 102 | −0⅝ | −0⅞ | 7.22 |
| Philip Morris 6⅝ 92 | 100 | 101 | 101¼ | −0⅝ | −2 | 6.46 |
| Philip Morris 6¾ 94 | 100 | 101 | 101¼ | +0½ | 0 | 6.11 |
| Quebec 7⅜ 92 | 100 | 102½ | 103¼ | −1½ | −1⅛ | 6.95 |
| Renfe 7¾ 92 | 80 | 99 | 99¼ | 0 | −0⅛ | 7.88 |
| Sekisui Pre. 5¾ 92 WW | 70 | 102¼ | 102¾ | −0⅝ | −1⅛ | 5.41 |
| Soc. Lux. de Cnt. 8⅝ 92 | 80 | 106⅛ | 106½ | −0⅛ | +0⅝ | 7.07 |
| Vorarlberg Kraft 6⅝ 92 | 50 | 101½ | 101⅞ | +0⅛ | −0⅛ | 6.52 |

Average price changes... On day −0½ on week −1½

| YEN STRAIGHTS | Issued | Bid | Offer | Change on day | Change on week | Yield |
|---|---|---|---|---|---|---|
| Asian Dev. Bk. 8⅜ 91 ... | 15 | 98½ | 99½ | −0½ | −1 | 8.41 |
| Int.-Amer. Dev. 8⅝ 91 | 15 | 101 | 102 | −0⅛ | −0⅛ | 8.62 |
| Japan Airlines 7⅞ 87 ... | 9 | 95⅞ | 96⅞ | 0 | −0⅛ | 8.90 |
| New Zealand 8⅛ 87 ... | 15 | 98⅞ | 99⅞ | −0⅛ | −0⅛ | 8.53 |
| World Bank 8⅛ 92 ... | 20 | 98½ | 99½ | +0⅛ | −0⅛ | 8.54 |

Average price changes... On day −0⅛ on week −0⅛

| OTHER STRAIGHTS | Issued | Bid | Offer | Change on day | Change on week | Yield |
|---|---|---|---|---|---|---|
| Bell Canada 16 89 C$ ... | 100 | †96 | 96½ | −0⅛ | +0⅛ | 16.88 |
| Can. Pac. S. 16⅝ 89 C$ | 50 | †97¼ | 97¾ | −1 | −1 | 16.97 |
| Crd. Foncier 17¼ 89 C$ | 30 | †98⅝ | 99⅛ | 0 | +0⅝ | 17.21 |
| Hudson Bay 17 89 C$ ... | 40 | †98⅞ | 99 | 0 | −0⅝ | 17.29 |
| Q. Hyd. 16½ 89 (My) C$ | 50 | †98⅞ | 99⅜ | −0⅛ | +0⅛ | 16.73 |
| Quebec Prov. 16⅞ 89 C$ | 50 | †98⅞ | 99⅜ | 0 | 0 | 16.69 |
| Simpsons 16¾ 89 C$ ... | 40 | 95¼ | 96 | +0⅛ | −0⅛ | 17.86 |
| U. Bk. Nwy. 9½ 90 EUA | 18 | 89⅝ | 90⅛ | +0⅛ | −0⅛ | 11.53 |
| Amro Bank 10 87 Fl ... | 150 | 98⅜ | 99 | −0⅛ | −0⅛ | 10.32 |
| Bk. Mees & H. 10 87 Fl | 75 | 98⅜ | 98⅞ | −0⅛ | −0⅛ | 10.38 |
| Eurofima 10½ 89 Fl ... | 50 | 99½ | 100 | −0½ | −0⅛ | 10.53 |
| Ireland 10½ 87 Fl ... | 75 | 98⅛ | 98⅝ | −0⅛ | −0⅛ | 10.86 |
| Phil. Lamps 10½ 87 Fl ... | 100 | 99⅞ | 100⅜ | 0−⅛ | −0⅛ | 10.26 |
| World Bank 10 87 Fl ... | 150 | 97⅝ | 98⅛ | −0⅛ | −0⅛ | 10.53 |
| OKB 14 86 FFr | 400 | 93 | 94 | −0½ | +1 | 16.41 |
| Solvay et C. 14¾ 86 FFr | 200 | 92½ | 93½ | 0 | +0½ | 17.36 |
| Acona 14 85 £ | 20 | 95⅛ | 96⅛ | 0 | −0½ | 15.38 |
| Beneficial 14¾ 90 £ (D) | 20 | 89¼ | 90¼ | −0⅛ | −0⅛ | 16.55 |
| BNP 13½ 91 £ | 15 | 93⅞ | 94⅞ | 0 | −0⅛ | 14.70 |
| CECA 13½ 88 £ | 20 | 95⅛ | 96⅛ | −0⅛ | −0⅛ | 14.52 |
| Fin. Ex. Cred. 13¾ 86 £ | 15 | 95⅛ | 96⅛ | −0⅛ | −0⅛ | 15.06 |
| Gen. Elec. Co. 12½ 89 £ | 50 | 92⅛ | 93⅛ | −0⅛ | −0⅛ | 14.21 |
| Hiram Walker 14¾ 86 £ | 25 | 97½ | 98½ | −0⅛ | −0⅛ | 14.92 |
| Privatbanken 14½ 88 £ | 12 | 94⅛ | 95⅛ | −0½ | +0⅛ | 15.76 |
| Quebec 15½ 87 £ | 35 | 101⅛ | 102⅛ | −0⅛ | −0½ | 14.87 |
| Reed (Nd) NV 16¾ 89 £ | 25 | †103⅛ | 104⅛ | −0⅛ | −0⅛ | 15.71 |
| Royal Trustco 14 86 £ ... | 12 | 97⅛ | 98⅛ | −0⅛ | −0⅛ | 14.66 |
| SDR France 15¾ 92 £ ... | 30 | 99⅛ | 100⅛ | −0⅛ | −0⅛ | 15.49 |
| Swed. Ex. Cr. 13¾ 86 £ | 20 | 98⅛ | 97⅛ | −0⅛ | −1⅛ | 14.69 |
| Eurofima 10½ 87 LuxFr | 500 | 95½ | 96½ | 0 | 0 | 11.51 |
| EIB 9¾ 88 LuxFr | 600 | 91⅛ | 92⅛ | 0 | −0½ | 11.81 |

| FLOATING RATE NOTES | Spread | Bid | Offer | C.dte | C.cpn | C.yld |
|---|---|---|---|---|---|---|
| Allied Irish 5¼ 92 | 0¼ | 98 | 98½ | 15/10 | 15.69 | 15.97 |
| Bank of Montreal 5¼ 91 | 0¼ | 98⅝ | 99⅛ | 29/10 | 15⅛ | 15.30 |
| Bk. of Tokyo 5¼ 91 (D) | 0¼ | 98⅞ | 99⅜ | 8/12 | 15⅛ | 15.40 |
| Bk. Nova Scotia 5¼ 93 | 0¼ | 98⅞ | 99⅜ | 29/10 | 15⅛ | 15.30 |
| BFCE 5¼ 88 | 0¼ | 98⅞ | 99⅜ | 28/10 | 15 | 15.15 |
| BFCE 5¼ 87 | 0¼ | 99⅜ | 99⅞ | 27/7 | 16⅛ | 16.35 |
| Caisse Nat. Tele. 5¼ 90 | 0¼ | 99 | 99½ | 21/10 | 15⅛ | 15.87 |
| CCCE 5¼ 2002 | 0¼ | 98⅜ | 98⅞ | 11/12 | 15⅛ | 15.63 |
| Co-Ban Eurofin 5¼ 91 | 0¼ | 98⅞ | 99⅜ | 14/10 | 16 | 16.18 |
| Credit Agricole 5¼ 97 | 0¼ | 98⅞ | 99⅜ | 24/9 | 15.44 | 15.57 |
| Credit Lyonnais 5¼ 97 | 0¼ | 99 | 99½ | 1/10 | 16 | 16.12 |
| Credit Nat. 5¼ 94 | ‡0¼ | 98⅜ | 98⅞ | 9/9 | 14.69 | 14.93 |
| Denmark, Kngdm. of 82 | 0⅛ | †99 | 99½ | 25/8 | 15.44 | 15.57 |
| Den Norske Cred. 5¼ 93 | 0¼ | 97⅞ | 98⅜ | 4/12 | 15 | 15.31 |
| Ind. Bank Japan 5¼ 88 | 0¼ | 98⅞ | 99⅜ | 12/11 | 14⅞ | 14.57 |
| Ireland 5¼ 89/94 | 0¼ | †98⅞ | 98⅜ | 25/11 | 14⅛ | 14.87 |
| Kansallis Osaka 5¼ 92 | 0¼ | 98⅞ | 99⅜ | 6/11 | 16.31 | 16.47 |
| Lloyds Eurofin 5¼ 93 | §0¼ | 98⅞ | 99⅜ | 29/10 | 17⅛ | 17.28 |
| Long Term Cred. 5¼ 92 | 0¼ | 98⅞ | 99⅜ | 29/11 | 14⅞ | 14.87 |
| J. P. Morgan 5¼ 97 | §0¼ | 98⅞ | 99⅜ | 12/8 | 14⅛ | 14.79 |
| Nat. West. Fin. 5¼ 91 | §0¼ | 99 | 99½ | 15/7 | 15.19 | 15.30 |
| New Zealand 5¼ 87 | 0¼ | 99⅛ | 99⅝ | 7/10 | 15.56 | 15.66 |
| Nippon Credit 5¼ 90 | 0¼ | 98⅞ | 99⅜ | 10/8 | 16.06 | 16.20 |
| Offshore Mining 5¼ 91 | 0¼ | 98⅞ | 99⅜ | 2/12 | 14.19 | 14.33 |
| PKbanken 5¼ 91 | 0¼ | 98⅞ | 99⅜ | 17/12 | 15.81 | 15.95 |
| Scotland Int. 5¼ 92 | 0¼ | 98⅞ | 99 | 23/9 | 15⅛ | 15.57 |
| Sec. Pacific 5¼ 91 | 0¼ | 98⅞ | 99⅜ | 24/11 | 15 | 16.13 |
| Societe Generale 5¼ 95 | 0¼ | 98⅞ | 99⅜ | 1/9 | 15.31 | 15.46 |
| Standard Chart. 5¼ 91 | 0¼ | 98⅞ | 99 | 18/11 | 14⅞ | 15.06 |
| Sumitomo Fin. 5½ 88 | 0¼ | 99⅛ | 99⅝ | 9/8 | 16 | 16.10 |
| Sweden 5¼ 89 | 0¼ | 99 | 99½ | 26/8 | 15.31 | 15.43 |
| Toronto Domin'n 5¼ 92 | 0¼ | 98⅝ | 99⅛ | 11/8 | 16⅛ | 16.54 |

Average price changes... On day 0 on week −0⅛

| CONVERTIBLE BONDS | Cnv. date | Cnv. price | Bid | Offer | Chg. day | Prem |
|---|---|---|---|---|---|---|
| Ajinomoto 5¼ 96 | 7/81 | 933 | 79⅞ | 81⅛ | +1½ | 0.41 |
| Bow Valley Inv. 8 95 | 4/81 | 23.12 | 98 | 99⅛ | −0⅛ | 70.81 |
| Bridgestone Tire 5½ 96 | 3/82 | 470 | 81⅞ | 83⅜ | +0⅞ | −1.25 |
| Canon 6¾ 95 | 1/81 | 829 | 81⅞ | 83⅞ | −0⅛ | 5.46 |
| Daiwa Secs. 5½ 96 | 12/81 | 513.3 | †62 | 64 | 0 | 2.56 |
| Fujitsu Fanuc 4½ 96 | 10/81 | 5641 | 80 | 82 | +0⅛ | 13.94 |
| Furukawa Elec. 5¼ 96 | 7/81 | 300 | 85½ | 87 | −2⅛ | −5.05 |
| Hanson O/S Fin. 9⅞ 96 | 8/81 | 1.38 | †89 | 90 | −4 | −9.32 |
| Hitachi Cable 5⅛ 96 | 2/82 | 515 | 83⅞ | 85⅛ | +1⅛ | 2.76 |
| Hitachi Cred. Cpn. 5 96 | 7/81 | 1612 | 73⅛ | 75⅛ | −0⅛ | 5.92 |
| Honda Motor 5½ 97 | 3/82 | 841 | 80⅞ | 82⅛ | +0⅛ | 3.71 |
| Inchcape 8 95 | 2/81 | 4.65 | †56 | 58 | 0 | 21.34 |
| Kawasaki 5¼ 96 | 9/81 | 229 | 60 | 61½ | +0⅛ | 9.00 |
| Marui 6 96 | 7/81 | 848.4 | 99⅛ | 100⅛ | +0⅛ | 5.43 |
| Minolta Camera 5 96 | 10/81 | 826.4 | 58⅛ | 60 | +0⅛ | 24.26 |
| Minorco 9⅛ 97 | 5/82 | 8.16 | †78 | 80 | −0⅛ | 42.19 |
| Murata 5¼ 96 | 7/81 | 2168 | 86¼ | 87⅛ | +0⅛ | 19.15 |
| NKK 6⅛ 96 | 7/81 | 186 | †68⅛ | 70⅛ | −0⅛ | −26.88 |
| Nippon Chemi-C. 5 91 | 10/81 | 919 | 62 | 64 | 0 | −20.64 |
| Nippon Electric 5½ 97 | 2/82 | 846 | 91⅛ | 92⅛ | +2 | 8.71 |
| Orient Finance 5¼ 97 | 3/82 | 1205 | 85⅛ | 87⅛ | −0⅛ | 9.12 |
| Sanyo Electric 5 96 | 10/81 | 652 | 64 | 65½ | 0 | 10.63 |
| Sumitomo Elec. 5¼ 97 | 3/82 | 577.3 | 86⅛ | 87⅛ | +1 | 8.08 |
| Sumitomo Met. 5¼ 96 | 10/81 | 296.1 | 63⅛ | 65 | +1⅛ | 44.40 |
| Swiss Bk. Cpn. 6¾ 90 | 9/80 | 191 | 71 | 73 | −1 | 28.19 |
| Konishiroku 6 90 DM | 2/82 | 565 | 99⅛ | 100⅛ | +0⅛ | 6.88 |
| Mitsubishi H. 6 89 DM | 2/82 | 263 | 90½ | 91½ | +1⅛ | 23.85 |



EUROBOND TURNOVER
(nominal value in $m)

| | Cedel | Euro-clear |
|---|---|---|
| U.S. $ bonds | | |
| Last week | 4,144.3 | 11,642.6 |
| Previous week | 7,412.2 | 7,342.4 |
| Other bonds | | |
| Last week | 1,082.3 | 841.4 |
| Previous week | 1,121.5 | 659.4 |

* No information available—previous day's price.

† Only one market maker supplied a price.

STRAIGHT BONDS: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week=*Change over price a week* earlier.

FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte=Date next coupon becomes effective. Spread=Margin above six-month offered rate (‡ three-month; § above mean rate) for U.S. dollars. C.cpn=The current coupon. C.yld=The current yield.

CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Chg. day=Change on day. Cnv. date=First date for conversion into shares. Cnv. price=Nominal amount of bond per share expressed in *currency of share at conversion* rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

The list shows the 200 latest *international* bonds for which an adequate secondary market exists. The prices over the past week were supplied by: Kredietbank NV; Credit Commercial de France; Credit Lyonnais; Commerzbank AG; Deutsche Bank AG; Westdeutsche Landesbank Girozentrale; Banque Generale du Luxembourg SA; Banque Internationale Luxembourg; Kredietbank Luxembourg; Algemene Bank Nederland NV; Pierson, Heldring and Pierson; Credit Suisse/Swiss Credit Bank; Union Bank of Switzerland; Akroyd and Smithers; Bank of Tokyo International; Bankers Trust International; Chase Manhattan; Citicorp International Bank; Credit Commercial de France (Securities) London; Daiwa Europe NV; Deltec Securities (UK); EBC; First Chicago; Goldman Sachs International Corporation; Hambros Bank; IBJ International; Kidder Peabody International; Merrill Lynch; Morgan Stanley International; Nikko Securities Company (Europe); Orion Royal Bank; Samuel Montagu and Co.; Scandinavian Bank; Societe Generale Strauss Turnbull; Sumitomo Finance International; S. G. Warburg and Co.; Wood Gundy.

Closing prices on June 18

# WORLD STOCK MARKETS

## NEW YORK

| 1982 High | 1982 Low | Stock | June 18 |
|---|---|---|---|
| 40⅞ | 30¼ | ACF Industries | 30¼ |
| 27⅞ | 14½ | AMF | 14⅝ |
| 4⅝ | 1⅞ | AM Intn. | — |
| 27⅝ | 23¾ | ARA | 25⅝ |
| 44⅝ | 25 | ASA | 26 |
| 20 | 11⅞ | AVX Corp. | 15¼ |
| 31¾ | 25⅝ | Abbot Labs | 27¾ |
| 24½ | 17 | Acme Cleve. | 17⅞ |
| 31 | 15 | Adobe Oil & Gas | 16 |
| 25⅞ | 15½ | Advanced Micro. | 22⅝ |
| 47⅞ | 33⅛ | Aetna Life & Cas | 33⅛ |
| 14⅞ | 8¼ | Ahmanson (H.F.) | 8½ |
| 37⅝ | 26⅛ | Air Prod & Chem. | 25⅝ |
| 15 | 8¼ | Akzona | 15 |
| 27 | 26½ | Albany Int. | 24 |
| 15 | 11 | Alberto-Culv. | 11⅞ |
| 31 | 24¾ | Albertson's | 30 |
| 23⅛ | 16 | AlcanAluminium | 16 |
| 22 | 17¼ | Alco Standard | 20½ |
| 30⅛ | 23¾ | Alexander & Al | 24½ |
| 33½ | 23⅞ | Allegheny Int. | 23⅞ |
| 45⅛ | 31½ | Allied Corp. | 31½ |
| 31⅝ | 24¾ | Allied Stores | 29 |
| 15⅞ | 12¼ | Allis-Chalmers | 12¼ |
| 12⅝ | 9⅝ | Alpha Portd | 12⅝ |
| 26⅞ | 22 | Alcoa | 24 |
| 51½ | 39⅝ | Amal. Sugar | 43 |
| 48¼ | 18½ | Amax | 18½ |
| 28¼ | 17¾ | Amdahl Corp. | 17¾ |
| 24½ | 15¼ | Amerada Hess | 18¾ |
| 18¼ | 9⅝ | Am. Airlines | 17½ |
| 44 | 35⅝ | Am. Brands | 40½ |
| 38½ | 18½ | Am. Broadcast'g | 34¼ |
| 35⅝ | 25⅞ | Am. Can | 27¼ |
| 29½ | 24⅝ | Am. Cyanamid | 24⅞ |
| 18½ | 11⅞ | Am. Elect. Powr. | 16⅝ |
| 50 | 39⅝ | Am. Express | 40⅝ |
| 43⅝ | 37 | Am. Gen. Insnce. | 38⅞ |
| 16½ | 10¾ | Am. Hoist & Dk. | 11½ |
| 38¼ | 33⅝ | Am. Home Prod. | 35⅝ |
| 45¾ | 37½ | Am. Hosp. Supply | 42¼ |
| 26¼ | 18⅝ | Am. Medical Intl | 20¾ |
| 4 | 2½ | Am. Motors | 3⅛ |
| 37 | 29⅝ | Am. Nat. Rescs. | 29⅝ |
| 63⅝ | 43¾ | Am. Petfina | 56½ |
| 13½ | 8⅝ | Am. Quasar Pet. | 8⅝ |
| 30⅛ | 22 | Am. Standard | 22¾ |
| 41¼ | 26⅛ | Am. Stores | 40 |
| 60⅝ | 50¾ | Am. Tel. & Tel | 50¾ |
| 33½ | 23½ | Ametek Inc | 25¼ |
| 28¾ | 18 | Amfac | 18 |
| 59¾ | 46¾ | AMP | 52¾ |
| 26⅞ | 18¾ | Amstar | 21 |
| 34⅞ | 20⅝ | Amstead Inds | 21⅛ |
| 18⅛ | 13½ | Anchor Hockg. | 13⅝ |
| 51¼ | 38⅞ | Anheuser-Bh | 50¼ |
| 18⅞ | 14 | Archer Daniels | 14 |
| 27¼ | 16⅛ | Armco | 16⅛ |
| 16⅞ | 13½ | Armstrong CK | 15⅝ |
| 11¾ | 6¾ | Asamera Oil | 6¾ |
| 26½ | 17⅝ | Asarco | 20⅝ |
| 31½ | 20⅞ | Ashland Oil | 25⅛ |
| 34 | 24¾ | Assd. D. Goods | 31⅞ |
| 46¼ | 33⅝ | Atlantic Rich | 38⅝ |
| 27⅞ | 23½ | Auto-Data Prg. | 24¾ |
| 21 | 14¼ | Avco | 14⅞ |
| 27⅝ | 21½ | Avery Intl | 24⅛ |
| 50⅝ | 40⅛ | Avnet | 42½ |
| 30¼ | 22 | Avon Prod | 22¾ |
| 38⅝ | 22½ | Baker Intl | 22⅝ |
| 27⅛ | 22¾ | Balt Gas & El | 25¼ |
| 29⅝ | 18¾ | Ban Cal | 20 |
| 19¼ | 13¼ | Bangor Punta | 13½ |
| 21¼ | 15⅞ | Bank America | 15⅞ |
| 44¼ | 35½ | Bank of N.Y. | 37½ |
| 35⅛ | 27¼ | Bankers Tst N.Y. | 27¼ |
| 18¼ | 14¼ | Barry Wright | 14¼ |
| 51⅞ | 37 | Bausch & Lomb | 40½ |

| 1982 High | 1982 Low | Stock | June 18 |
|---|---|---|---|
| 33½ | 28¾ | Columbia Gas | 29¾ |
| 72⅝ | 41¾ | Columbia Pict. | 71½ |
| 25¼ | 19 | Combined Int | 19 |
| 36⅝ | 23½ | Combustn. Eng. | 23½ |
| 22⅛ | 19½ | Cmwlth. Edison | 20⅝ |
| 67⅝ | 49¾ | Comm. Satellite | 51 |
| 15 | 11¼ | Comp. Science | 11½ |
| 32½ | 28¼ | Cone Mills | 30½ |
| 27½ | 21¼ | Conrac | 24⅛ |
| 38⅝ | 31¼ | Cons Edison | 34¼ |
| 36 | 29¾ | Cons. Foods | 33¾ |
| 40⅛ | 32¾ | Cons Freight | 34½ |
| 25¼ | 20½ | Con. Nat. Gas | 23¼ |
| 18⅛ | 15½ | Consumer Power | 16⅞ |
| 4¾ | 3 | Cont. Air Lines | 3⅞ |
| 28⅝ | 23¾ | Contl. Corp | 23¾ |
| 33⅛ | 25⅝ | Contl. Group | 25⅝ |
| 36½ | 25¼ | Contl. Illinois | 25¼ |
| 17¼ | 15 | Contl. Telep | 15⅞ |
| 36¾ | 23 | Control Data | 23⅛ |
| 52⅛ | 28 | Cooper Inds | 28½ |
| 13 | 9⅞ | Coors Adolph | 10⅞ |
| 26⅜ | 13⅝ | Copperweld | 13⅝ |
| 55⅞ | 39⅞ | Corning Glass | 44¾ |
| 22 | 19⅝ | Corroon Black | 19⅞ |
| 32⅝ | 24⅞ | Cox Broadcast'g | 24⅞ |
| 30½ | 22¼ | Crane | 22⅝ |
| 36 | 25¾ | Crocker Nat. | 26 |
| 30⅝ | 23 | Crown Cork | 23 |
| 22⅝ | 17½ | Crown Zell | 17½ |
| 39⅝ | 26¾ | Cummins Eng | 26¾ |
| 45¼ | 35½ | Curtiss-Wright | 38¼ |
| 8⅝ | 5⅛ | Damon | 6¾ |
| 30⅛ | 25¼ | Dana | 26½ |
| 53⅞ | 48⅝ | Dart & Kraft | 51¾ |
| 54⅝ | 25 | Data Gen. | 26⅝ |
| 37½ | 26¾ | Dayton-Hudson | 36½ |
| 35 | 24¾ | Deere | 25⅝ |
| 32¾ | 22¾ | Delta Air | 32 |
| 34½ | 22½ | Denny's | 24⅝ |
| 24⅝ | 14 | Dentsply Intl | 24⅝ |
| 12½ | 11⅛ | Detroit Edison | 11¼ |
| 40⅝ | 35⅝ | Diamond Intl | 38 |
| 25⅝ | 17⅞ | Diamond Shank. | 18¼ |
| 10¼ | 8 | DiGiorgio | 9 |
| 88⅞ | 67½ | Digital Equip | 67½ |
| 13¼ | 10 | Dillingham | 10⅛ |
| 24⅛ | 19½ | Dillon | 21¾ |
| 58⅛ | 47½ | Disney (Walt) | 53¾ |
| 15⅝ | 6 | Dome Mines | 6 |
| 45¼ | 36 | Donnelly (RR) | 39¼ |
| 32⅞ | 20¾ | Dover Corp | 21 |
| 26¼ | 20⅛ | Dow Chemical | 20⅝ |
| 48¾ | 39¾ | Dow Jones | 40⅛ |
| 33½ | 17⅛ | Dresser | 17½ |
| 13⅛ | 11 | Dr. Pepper | 12⅛ |
| 25⅞ | 20½ | Duke Power | 20½ |
| 71¾ | 58⅞ | Dun & Brad | 67½ |
| 38 | 31⅝ | Du Pont | 31⅝ |
| 19¼ | 15 | EG & G | 16⅝ |
| 22 | 16½ | Easo | 19 |
| 6⅝ | 5 | Eastern Airlines | 5⅝ |
| 24 | 17½ | Eastern Gas & F. | 17⅞ |
| 75⅝ | 66 | Eastman Kodak | 68⅝ |
| 32⅛ | 25⅞ | Eaton | 27 |
| 14⅝ | 10⅝ | Echlin Mfg | 12¼ |
| 24½ | 17½ | Eckherd Jack | 18 |
| 29 | 18⅞ | Electronic Data | 25½ |
| 4⅛ | 2⅝ | Elect. Memories | 3⅞ |

## CANADA

## HOLLAND

## HONG KONG

## JAPAN

## NORWAY

## ITALY

## AUSTRALIA

## GERMANY

## SINGAPORE

## SOUTH AFRICA

## SWEDEN

## SWITZERLAND

## BRAZIL

## TEL AVIV

## AUSTRIA

## BELGIUM/LUXEMBOURG

## FRANCE

## DENMARK

# Indices

## NEW YORK —DOW JONES

## STANDARD AND POORS

## NY.S.E. ALL COMMON

## MONTREAL

## NEW YORK ACTIVE STOCKS

Companies and Markets

# CURRENCIES, MONEY and GOLD

## MONEY MARKETS

# Growing marital problems

Europe may be trying to divorce itself from the effects of volatile U.S. interest rates, but even a period of trial separation is proving difficult to achieve. The net result of keeping European interest rate movements down to a minimal level as Eurodollar rates soared was a sharp fall of of all major currencies against the dollar.

An unexpectedly large rise in U.S. housing starts last month, was interpreted as evidence that the economy is more buoyant than expected, which coupled with projections of heavy U.S. Treasury borrowing to finance the Budget deficit, led to grave *doubts of any marked fall in U.S.* interest rates in the near term.

Eurodollar rates rose by about one percentage point last week, but the response from other currencies was fairly restrained. Sterling. D-mark and guilder Eurorates rose slightly, while Euro Swiss rates moved up rather more, but from much lower levels, following the increase in time deposit rates by Swiss banks.

Rates supporting two of Europe's weakest currencies, the French franc and Italian lira, actually fell, but this is not quite as surprising as it first seems because following the recent devaluation of both currencies the need for protection has eased. Belgian rates were forced higher however as speculative attention tended to switch towards the Belgian franc as a potential candidate for yet another EMS realignment.

As far as financial markets were concerned the surge in Eurodollar rates overshadowed *the successful conclusion to the* ground war on the Falklands. This was largely because a British victory had already been discounted, as illustrated by the cut in London clearing bank base rates several days before Port Stanley was taken. The strength of sterling against all *currencies except the dollar* gives some cause for comfort, but the opportunities for any further cuts in London interest rates are likely to be severely limited by events on the other side of the Atlantic.

## WEEKLY CHANGE IN WORLD INTEREST RATES

| | June 18 | change | | June 18 | change |
|---|---|---|---|---|---|
| **LONDON** | | | **NEW YORK** | | |
| Base rates | 12½ | Unch'd | Prime rates | 16½ | Unch'd |
| 7 day interbank | 12⅜-12⅞ | —¼ | Federal funds | 14-14¼ | —⅛ |
| 3 mth interbank | 12⅞-13 1/16 | + 1/16 | 3 mth Treasury Bills | 12.57 | +0.67 |
| Treasury Bill Tender | 12.2425 | +0.0648 | 6 Mth. Treasury Bills | 13.06 | +0.92 |
| Band 1 Bills | 12⅝ | Unch'd | 3 Mth. CD | 16.10 | +1.35 |
| Band 2 Bills | 12½ | Unch'd | **FRANKFURT** | | |
| Band 3 Bills | 12⅜* | Unch'd | *Lombard* | 9.0 | Unch'd |
| 3 Mth. Treasury Bills | 12 [illegible]-12¼ | Unch'd | One Mth. Interbank | 9.10 | Unch'd |
| 1 Mth. Bank Bills | 12 [illegible] | Unch'd | Three month | 9.225 | +0.075 |
| 3 Mth. Bank Bills | 12 [illegible] | Unch'd | **PARIS** | | |
| *TOKYO* | | | Intervention Rate | 16½ | —½ |
| One month Bills | 7.34375 | +0.125 | 1 Mth. Interbank | 15½ | —[illegible] |
| Three month Bills | 7.28125 | +0.0625 | Three month | 15 [illegible] | —⅞ |
| **BRUSSELS** | | | **MILAN** | | |
| One month | 15⅝ | +¾ | One month | 20 [illegible] | —⅛ |
| Three month | 15¾ | +⅞ | Three month | 20 [illegible] | Unch'd |
| **AMSTERDAM** | | | **DUBLIN** | | |
| One month | 9⅛ | + [illegible] | One month | 19¾ | —⅛ |
| Three month | 9⅛ | + [illegible] | Three month | 19¾ | —⅛ |

*London*—band 1 bills mature in up to 14 days, band 2 bills 15 to 33 days, and band 3 bills 34 to 63 days. Rates quoted represent Bank of England buying or selling rates with the money market. In other centres rates are generally deposit rates in the domestic money market, and their respective changes during the week. *Band 4 12¾.

## BANK OF ENGLAND TREASURY BILL TENDER

| | June 18 | June 11 | | June 18 | June 11 |
|---|---|---|---|---|---|
| Bills on offer | £100m | £100m | Top accepted rate of discount | 12.2536% | 12.2135% |
| Total of applications | £523.555m | £494.25m | Average rate of discount | 12.2425% | 12.1777% |
| Total allocated | £100m | £100m | Average yield | 12.65% | 12.56% |
| Minimum accepted bid | £96.945 | £96.955 | Amount on offer at next tender | £100m | £100m |
| Allotment at minimum level | 59% | 1% | | | |

## FT LONDON INTERBANK FIXING

| 3 months U.S. dollars | |
|---|---|
| bid 16 3/8 | offer 16 1/2 |

| 6 months U.S. dollars | |
|---|---|
| bid 16 1/2 | offer 16 5/8 |

The fixing rates (June 11) are the arithmetical means, rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11 am each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque National de Paris and Morgan Guaranty Trust.

## LONDON MONEY RATES

| June 18 1982 | Sterling Certificate of deposit | Interbank | Local Authority deposits | Local Auth. negotiable bonds | Finance House Deposits | Company Deposits | Discount Market Deposits | Treasury Bills ⊕ | Eligible Bank Bills ⊕ | Fine Trade Bills ⊕ |
|---|---|---|---|---|---|---|---|---|---|---|
| Overnight | — | 11-16 | 12½-12¾ | — | — | 12¾-13 | 11-12½ | — | — | — |
| 2 days notice | — | — | 12⅝-12¾ | — | — | — | — | — | — | — |
| 7 days or | — | — | — | — | — | — | — | — | — | — |
| 7 days notice | — | 12⅝-12⅞ | 12¾ | — | — | 13-13⅛ | 12½ | — | — | — |
| One month | 12⅞-12¾ | 12 [illegible]-13 | 12 [illegible] | 13⅝-13⅜ | 13 | 13⅛ | 12½ | 12 [illegible]-12 [illegible] | 12 [illegible] | 13 [illegible] |
| Two months | 12⅞-12¾ | 12⅞-13 [illegible] | — | 13½-13⅛ | 13 [illegible] | 13¼ | 12¼-12⅜ | 12 [illegible]-12 [illegible] | 12 [illegible] | 13 [illegible] |
| Three months | 12⅞-12¾ | 12⅞-13 [illegible] | 12⅞ | 13⅜-13 | 13 [illegible] | 13¼ | 12¼ | 12 [illegible]-12¼ | 12 [illegible] | 12 [illegible] |
| Six months | 12 [illegible]-12¾ | 12⅞-13⅛ | 13 | 12⅜-12 | 13 [illegible] | — | — | — | 12 [illegible]-12⅛ | 12¾ |
| Nine months | 12 [illegible]-12¾ | 13-13⅛ | — | 13¼-12⅞ | 13⅛ | — | — | — | — | — |
| One year | 13-12 [illegible] | 13 [illegible]-13 [illegible] | 13 | 13⅛-12¾ | 13¼ | — | — | — | — | — |
| Two years | — | — | 13⅜ | — | — | — | — | — | — | — |

Local authorities and finance houses seven days' notice, others seven days fixed. Long-term local authority mortgage rates, nominally three years 13⅝ per cent; four years 13¾ per cent; five years 13⅞ per cent. ⊕ Bank bill rates in table are buying rates for prime paper. Buying rates for four-month bank bills 12 [illegible]-12 [illegible] per cent; four months trade bills 12 [illegible] per cent.

Approximate selling rate for one month Treasury bills 12 [illegible]-12 [illegible] per cent; two months 12 [illegible]-12 [illegible] per cent; three months 12 [illegible]-12¼ per cent. Approximate selling rate for one month bank bills 12 [illegible]-12½ per cent; two months 12 [illegible] per cent and three months 12 [illegible]-12¼ per cent; one month trade bills 12 [illegible] per cent; two months 12 [illegible] per cent; three months 12 [illegible] per cent.

Finance Houses Base Rates (published by the Finance Houses Association) 14 per cent from June 1 1982. London and Scottish Clearing Bank Rates for lending 12½ per cent. London Clearing Bank Deposit Rates for sums at seven *days' notice 9½ per cent. Treasury Bills: Average tender* rates of discount 12.2425 per cent.

Certificates of Tax Deposit (Series 5) 13 per cent from June 8. Deposits withdrawn for cash 10½ per cent.

## EURO-CURRENCY INTEREST RATES (Market closing Rates)

| June 18 | Sterling | U.S. Dollar | Canadian Dollar | Dutch Guilder | Swiss Franc | D-mark | French Franc | Italian Lira | Belgian Franc Conv. | Belgian Franc Fin. | Yen | Danish Krone |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Short term | 12⅛-12⅝ | 14⅝-14⅞ | 15¾-16¾ | 8⅜-8⅞ | 2-2½ | 8 [illegible]-8 [illegible] | 16¾-16½ | 18-20 | 15-17 | 14½-15 | 6⅝-6⅞ | 20-21½ |
| 7 day's notice | 12⅝-12¾ | 14⅞-15⅛ | 16⅛-17¼ | 8 [illegible]-8 [illegible] | 2½-3 | 8 [illegible]-8 [illegible] | 15¾-16⅛ | 19-20⅝ | 15-17⅛ | 14¾-15 | 6 [illegible]-7 [illegible] | 18⅝-20⅛ |
| Month | 12 [illegible]-12 [illegible] | 15½-15½ | 17⅛-17⅜ | 9-9⅛ | 5 [illegible]-5 [illegible] | 8 [illegible]-8 [illegible] | 17¼-18 | 20-21 | 16½-17½ | 15⅝-15⅞ | 7⅛-7¼ | 17⅛-18⅜ |
| Three months | 12 [illegible]-13 [illegible] | 15¾-16 | 17⅝-17⅞ | 9 [illegible]-9 [illegible] | 5 [illegible]-6 [illegible] | 8 [illegible]-8 [illegible] | 17¾-18½ | 21-21⅝ | 17¼-18¼ | 15⅝-15⅞ | 7 [illegible]-7 [illegible] | 18¾-20¼ |
| Six months | 13-13½ | 15⅞-16⅛ | 17½-17¾ | 9 [illegible]-9 [illegible] | 6 [illegible]-6 [illegible] | 9-9⅛ | 18¾-19½ | 21-21⅜ | 17-18 | 15⅝-16 [illegible] | 7 [illegible]-7 [illegible] | 18¼-19¾ |
| One Year | 13⅛-13¼ | 15 [illegible]-16 [illegible] | 17¼-17½ | 9 [illegible]-9 [illegible] | 6 [illegible]-6 [illegible] | 9¼-9⅜ | 18¼-19 | 22⅝-23⅜ | 16¾-17½ | 15½-15¾ | 7⅛-7¼ | 18⅛-19⅝ |

SDR linked deposits: one month 13-13⅜ per cent; three months 13 7/16-13 11/16 per cent; six months 13 [illegible]-13 15/16 per cent; one year 13 7/16-13 [illegible] per cent.

ECU linked deposits: one month 12 9/16-12 15/16 per cent; three months 12⅞-13¼ per cent; six months 13⅛-13½ per cent; one year 13⅛-13½ per cent.

Asian $ (closing rates in Singapore): one month 15 [illegible]-15 [illegible] per cent; three months 16 [illegible]-16 [illegible] per cent; six months 16 [illegible]-16 [illegible] per cent; one year 16-16½ per cent. Long-term Eurodollar two years 15¾-16 per cent; three years 15⅞-16⅛ per cent; four years 15⅞-16⅛ per cent; five years 15⅞-16⅛ per cent; nominal closing rates. Short-term rates are call for U.S. dollars, Canadian dollars and Japanese yen; others two days' notice.

The following rates were quoted for London dollar certificates of deposit: one month 15.10-15.20 per cent; three months 15.45-15.55 per cent; six months 15.65-15.75 per cent; one year 15.60-15.70 per cent.

## CURRENCIES AND GOLD

# Dollar very strong

The dollar touched new peaks in the foreign exchange market last week as a result of the sharp rise in Eurodollar interest rates. The six-month rate touched 16⅞ per cent on Friday morning, and finished the week at 16 per cent, compared with 15⅞ per cent on the previous Friday.

Fears that U.S. rates will remain firm, and that Eurodollars could touch even higher levels, pushed the dollar up to record levels against the French franc and Italian lira, and the highest level for some time against other major currencies. Although the French franc appeared to have temporarily solved its problems within the European Monetary System, it was fixed at an all-time low against the dollar at the Paris fixing on every day last week.

The U.S. currency was fixed at a record FFr 6.9020 on Friday, and continued to advance later in the day, finishing at FFr 6.8250 compared with FFr 6.3350 at the end of the previous week. It was a similar story in terms of the lira, which ended the week at L1.381 against L1.327 a week earlier.

The dollar rose to its highest level since the end of August 1981 against the D-mark closing at DM 2.46 compared with DM 2.3950 on the previous Friday, and touched the best level since last September against the Swiss franc, rising to SwFr 2.12 from SwFr 2.0475 on the week.

Low Japanese interest rates, compared with New York, also pushed up the dollar to the highest level for over two years against the yen, closing at Y255.10 compared with Y247.50.

The dollar's trade-weighted index, on Bank of England figures, rose to 120.5 from 116.7. Sterling's index improved to 91.2 from 90.4, despite the pound's decline against the dollar. It fell to the lowest level for nearly five years against the U.S. currency, finishing on Friday at $1.7395 against $1.7750. On the other *hand sterling rose to* DM 4.28 from DM 4.2525; to SwFr 3.6875 from SwFr 3.6350; to FFr 11.87 from FFr 11.2350 and to Y444 from Y439.50.

Gold suffered from the dollar's strength, falling to $305-306 on Thursday, the lowest level since August 1979, and ended the week $19 down at $307-308.

## THE DOLLAR SPOT AND FORWARD

| June 18 | Day's spread | Close | One month | % p.a. | Three months | % p.a. |
|---|---|---|---|---|---|---|
| UK† | 1.7300-1.7470 | 1.7390-1.7400 | 0.34-0.44c dis | −2.69 | 1.37-1.47dis | −3.28 |
| Ireland† | 1.3950-1.4040 | 1.3950-1.3980 | 0.51-0.41c pm | 3.94 | 1.18-1.03 pm | 3.15 |
| Canada | 1.2870-1.2935 | 1.2880-1.2890 | 0.20-0.23c dis | −2.00 | 0.52-0.56dis | −1.68 |
| Nethlnd. | 2.7000-2.7100 | 2.7075-2.7075 | 1.55-1.45c pm | 6.64 | 4.90-4.75 pm | 7.14 |
| Belgium | 46.95-47.15 | 47.12-47.14 | 2-8c dis | −1.02 | 17-22 dis | −1.66 |
| Denmark | 8.4740-8.4975 | 8.4740-8.4790 | 0.40-0.80ore dis | −0.74 | 1.00-1.50dis | −0.59 |
| W. Ger. | 2.4450-2.4650 | 2.4525-2.4535 | 1.20-1.10pf pm | 5.38 | 4.30-4.25 pm | 6.98 |
| Portugal | 82.75-83.25 | 83.05-83.25 | 20-130c dis | −11.54 | 70-370dis | −10.58 |
| Spain | 110.90-111.25 | 111.15-111.25 | 87-97c dis | −9.95 | 200-240dis | −7.93 |
| Italy | 1377-1382 | 1380½-1381½ | 6½-8½lire dis | −6.54 | 17½-19 dis | −5.21 |
| Norway | 6.2000-6.2400 | 6.2310-6.2360 | 1.90-1.20ore pm | 2.69 | 1.80-1.40 pm | 1.03 |
| France | 6.7850-6.8300 | 6.8225-6.8275 | 3½-4½c dis | −1.58 | 3-4 dis | −2.06 |
| Sweden | 6.0600-6.0830 | 6.0680-6.0700 | 0.50-0.30ore pm | 0.79 | 2.40-2.20 pm | 1.52 |
| Japan | 253.40-256.25 | 255.05-255.15 | 1.77-1.69y pm | 8.14 | 5.55-5.45 pm | 8.62 |
| Austria | 17.28-17.37½ | 17.26½-17.27½ | 11¼-10gro pm | 7.37 | 34-31 pm | 7.51 |
| Switz. | 2.1100-2.1250 | 2.1195-2.1205 | 1.80-1.72c pm | 9.96 | 5.40-5.32 pm | 10.11 |

† UK and Ireland are quoted in U.S. currency. Forward premiums and discounts apply to the U.S. dollar and not to the individual currency.

## THE POUND SPOT AND FORWARD

| June 18 | Day's spread | Close | One month | % p.a. | Three months | % p.a. |
|---|---|---|---|---|---|---|
| U.S. | 1.7300-1.7470 | 1.7390-1.7400 | 0.34-0.44c dis | −2.69 | 1.37-1.47dis | −3.28 |
| Canada | 2.2375-2.2545 | 2.2415-2.2425 | 0.83-0.93c dis | −4.71 | 2.68-2.78dis | −4.87 |
| Nethlnd. | 4.68-4.73 | 4.71¼-4.72¼ | 1¾-1¼c pm | 3.81 | 4⅞-4½ pm | 3.92 |
| Belgium | 81.35-82.15 | 81.95-82.05 | 22-32c dis | −3.95 | 85-105 dis | −4.88 |
| Denmark | 14.67-14.81 | 14.78½-14.79½ | 15-16¼ore dis | −12.78 | 29¼-31¼ dis | −8.25 |
| Ireland | 1.2360-1.2450 | 1.2415-1.2430 | 0.63-0.75p dis | −6.66 | 1.91-2.10dis | −6.46 |
| W. Ger. | 4.24½-4.29½ | 4.27½-4.28½ | 1⅛-1⅛pf pm | 3.85 | 4½-4 pm | 3.97 |
| Portugal | 143.70-145.00 | 144.40-144.90 | 80-265c dis | −14.31 | 240-778dis | −14.07 |
| Spain | 192.20-193.80 | 193.30-193.50 | 410-455c dis | −26.83 | 790-835dis | −16.80 |
| Italy | 2386-2407 | 2400½-2402½ | 13-16lire dis | −7.24 | 47½-51½ dis | −8.24 |
| Norway | 10.82-10.89 | 10.85-10.86 | 6-7¼ore dis | −7.25 | 11½-13⅛ dis | −4.54 |
| France | 11.78-11.88 | 11.86½-11.87½ | 3½-5½c dis | −4.55 | 13¼-16¼dis | −4.97 |
| Sweden | 10.54-10.59 | 10.56½-10.57½ | 3¼-4¼ore dis | −4.33 | 3⅛-4⅝ dis | −1.51 |
| Japan | 440-446 | 443½-444½ | 2.20-1.90y pm | 5.54 | 6.45-6.05 pm | 5.63 |
| Austria | 29.87-30.17 | 30.03-30.08 | 34-27½gro pm | 12.28 | 63½-61½ pm | 7.65 |
| Switz. | 3.66-3.70 | 3.68¼-3.69¼ | 2½-2c pm | 7.32 | 6⅝-6⅛ pm | 6.91 |

Belgian rate is for convertible francs. Financial franc 90.95-91.05. Six-month forward dollar 2.78-2.88c dis. 12-month 4.72-4.92c dis.

## FORWARD RATES AGAINST STERLING

| | Spot | 1 month | 3 month | 6 month | 12 month |
|---|---|---|---|---|---|
| Dollar | 1.7395 | 1.7434 | 1.7537 | 1.7678 | 1.7877 |
| D-Mark | 4.28 | 4.2662 | 4.2375 | 4.2040 | 4.1384 |
| *French Franc* | 11.87 | 11.9150 | 12.0175 | 12.1880 | 12.4167 |
| Swiss Franc | 3.6875 | 3.6650 | 3.6238 | 3.5730 | 3.4705 |
| Japanese Yen | 444.0 | 442.0 | 437.8 | 432.1 | 420.7 |

## GOLD MARKETS

| | June 18 | | June 17 | |
|---|---|---|---|---|
| **Gold Bullion (fine ounce)** | | | | |
| Close | $307-308 | (£176½-177) | $305-306 | (£175-175½) |
| Opening | $306-307 | (£175½-176) | $312¼-313¼ | (£179-179½) |
| Morning fixing | $307.50 | (£177.356) | $313.50 | (£179.246) |
| Afternoon fixing | $306.75 | (£177.188) | $309 | (£176.854) |
| **Gold Coins June 18** | | | | |
| Krugrnd | $316¼-317½ | (£182-182½) | King Sov | $83¼-84 (£47½-48) |
| 1/2 Krug | $163¼-164¼ | (£94-94½) | Victoria Sov | $83¼-84 (£47½-48) |
| 1/4 Krug | $83-84 | (£47¾-48¼) | French 20s | $67½-70 (£39-40¼) |
| 1/10 Krug | $34-35 | (£19½-20) | 50 pesos Mex. | $377¾-380 (£217¾-218½) |
| Mapleleaf | $316¼-317½ | (£181¾-182½) | 100 Cor. Aust | $300-302½ (£172½-175½) |
| New Sov | $73½-74 | (£42¼-42½) | $20 Eagles | $374-378 (£215-217¼) |

## OTHER CURRENCIES

| June 18 | £ | $ | | Note Rates |
|---|---|---|---|---|
| Argentine Peso | 26,558-26,598 | 15,250-15,300 | Austria | 29.60-30.10 |
| AustraliaDollar | 1.6965-1.6985 | 0.9750-0.9765 | Belgium | 90.50-91.50 |
| Brazil Cruzeiro | 289.42-290.42 | 166.21-167.04 | Denmark | 14.63-14.77 |
| Finland Markka | 8.159-8.221 | 4.7200-4.7220 | France | 11.73-11.83 |
| Greek Drachma | 118.281-120.146 | 68.00-68.50 | Germany | 4.23-4.27 |
| Hong Kong Dollar | 10.271-10.29 | 5.9100-5.9150 | Italy | 2360-2400 |
| Iran Rial | 147.20* | 83.90* | Japan | 442-447 |
| KuwaitDinar(KD) | 0.49810-0.50410 | 0.2881-0.2885 | Netherlands | 4.67-4.71 |
| Luxembourg Fr. | 81.95-82.05 | 47.12-47.14 | Norway | 10.83-10.93 |
| Malaysia Dollar | 4.1010-4.1110 | 2.3590-2.3620 | Portugal | 140-156 |
| New Zealand Dlr. | 2.3260-2.3300 | 1.3390-1.3405 | Spain | 184½-194 |
| Saudi Arab. Riyal | 5.97-5.98 | 3.4305-3.4325 | Sweden | 10.51-10.61 |
| Singapore Dollar | 3.7530-3.7630 | 2.1590-2.1620 | Switzerland | 3.67-3.71 |
| Sth.African Rand | 1.9570-1.9585 | 1.1250-1.1260 | United States | 1.72¼-1.74½ |
| U.A.E. Dirham | 6.39-6.40 | 3.6715-3.6735 | Yugoslavia | 89½-106 |

*Selling rate.

## EMS EUROPEAN CURRENCY UNIT RATES

| | ECU central rates | Currency amounts against ECU June 18 | % change from central rate | % change adjusted for divergence | Divergence limit % |
|---|---|---|---|---|---|
| Belgian Franc | 44.9704 | 45.2288 | +0.57 | +0.52 | ±1.5501 |
| Danish Krone | 8.23400 | 8.16456 | −0.84 | −0.89 | ±1.6430 |
| German D-Mark | 2.33379 | 2.35961 | +1.11 | +1.06 | ±1.0888 |
| French Franc | 6.61387 | 6.54272 | −1.08 | −1.13 | ±1.3940 |
| Dutch Guilder | 2.57971 | 2.60361 | +0.93 | +0.88 | ±1.5004 |
| Irish Punt | 0.691011 | 0.686778 | −0.61 | −0.66 | ±1.6691 |
| Italian Lira | 1350.27 | 1328.04 | −1.65 | −1.65 | ±4.1389 |

Changes are for ECU, therefore positive change denotes a week currency. Adjustment calculated by Financial Times.

## CURRENCY MOVEMENTS

| June 18 | Bank of England Index | Morgan Guaranty Changes% |
|---|---|---|
| Sterling | 91.2 | −32.1 |
| U.S. dollar | 120.5 | +12.6 |
| Canadian dollar | 85.3 | −21.5 |
| Austrian schilling | 117.4 | +27.0 |
| Belgian franc | 95.0 | −1.7 |
| Danish kronar | 82.4 | −14.3 |
| Deutsche mark | 125.1 | +48.4 |
| Swiss franc | 143.7 | +93.4 |
| Guilder | 116.3 | +23.4 |
| French franc | 74.3 | −19.9 |
| Lira | 53.6 | −58.4 |
| Yen | 132.6 | +26.2 |

**Based on trade weighted changes from Washington agreement December, 1971. Bank of England index (base average 1975=100).**

## CURRENCY RATES

| June 18 | Bank rate % | Special Drawing Rights | European Currency Units |
|---|---|---|---|
| Sterling | — | 0.629461 | 0.553968 |
| U.S. $ | 12 | 1.09243 | 0.962519 |
| Canadian $ | 16.59 | * | 1.24280 |
| Austria Sch. | 6¾ | 18.8903 | 16.6323 |
| Belgian F. | 14 | 51.3988 | 45.2288 |
| Danish Kr. | 11 | 9.27746 | 8.16456 |
| D mark | 7½ | 2.68246 | 2.35961 |
| Guilder | 8 | 2.95885 | 2.60361 |
| French Fr. | 9½ | 7.43071 | 6.54272 |
| Lira | 19 | 1507.55 | 1328.04 |
| Yen | 5½ | 280.318 | 244.961 |
| Norwgn. Kr. | 9 | 6.82605 | 6.00564 |
| Spanish Pts. | 8 | 121.230 | 106.888 |
| Swedish Kr. | 10 | 6.64634 | 5.84441 |
| Swiss Fr | 5½ | 2.31322 | 2.03813 |
| Greek Dr'ch. | 20½ | N/A | 66.4001 |

*C$/SDR Rate for June 17: 1.41082

## EXCHANGE CROSS RATES

| June 18 | Pound St'rling | U.S. Dollar | Deutschem'k | JapaneseYen | FrenchFranc | Swiss Franc | Dutch Guild' | Italian Lira | Canadia Dollar | Belgian Franc |
|---|---|---|---|---|---|---|---|---|---|---|
| Pound Sterling | 1 | 1.740 | 4.280 | 444.0 | 11.87 | 3.698 | 4.718 | 2402. | 2.242 | 82.00 |
| U.S. Dollar | 0.575 | 1. | 2.460 | 255.2 | 6.824 | 2.120 | 2.712 | 1381. | 1.289 | 47.14 |
| Deutschemark | 0.234 | 0.406 | 1. | 103.7 | 2.773 | 0.862 | 1.102 | 561.1 | 0.524 | 19.16 |
| Japanese Yen 1,000 | 2.252 | 3.918 | 9.640 | 1000. | 26.73 | 8.305 | 10.63 | 5409. | 5.050 | 184.7 |
| French Frank 10 | 0.842 | 1.465 | 3.606 | 374.1 | 10. | 3.107 | 3.974 | 2023. | 1.889 | 69.08 |
| Swiss Franc | 0.271 | 0.472 | 1.161 | 120.4 | 3.219 | 1. | 1.279 | 651.3 | 0.608 | 22.24 |
| Dutch Guilder | 0.212 | 0.369 | 0.907 | 94.12 | 2.516 | 0.782 | 1. | 509.1 | 0.475 | 17.38 |
| Italian Lira 1,000 | 0.416 | 0.724 | 1.782 | 184.9 | 4.943 | 1.535 | 1.964 | 1000. | 0.934 | 34.15 |
| Canadian Dollar | 0.446 | 0.776 | 1.909 | 198.0 | 5.294 | 1.645 | 2.104 | 1071. | 1. | 36.57 |
| Belgian Franc 100 | 1.220 | 2.121 | 5.220 | 541.6 | 14.48 | 4.497 | 5.753 | 2929. | 2.734 | 100. |

# FT UNIT TRUST INFORMATION SERVICE

## AUTHORISED TRUSTS

## INSURANCES

# INSURANCE & OVERSEAS MANAGED FUNDS

Life Assur. Co. of Pennsylvania
4, New Rd., Chatham, Kent. Medway 812348
LACOP Units | 11.72 | 12.30 | — | —

Lloyds Life Assurance
20, Clifton St., EC2A 4HX 01-920 0202

Artemis Funds—Series A

Norwich Union Insurance Group
PO Box 4, Norwich NR1 3NG. 0603 22200

Pearl Assurance (Unit Funds) Ltd.
252 High Holborn, WC1V 7EB.

Phoenix Assurance Co. Ltd.
4-5 King William St., EC4P 4HR.

Pioneer Mutual Insurance Co. Ltd.
16, Crosby Rd. N., Waterloo, L'pool

Planned Savings Group
68, East Street, Horsham.

## OFFSHORE AND OVERSEAS

### NOTES

# FT SHARE INFORMATION SERVICE

## BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Five to Fifteen Years

Over Fifteen Years

Undated

Index-Linked & Variable Rate

## INT. BANK AND O'SEAS GOVT. STERLING ISSUES

## CORPORATION LOANS

## COMMONWEALTH AND AFRICAN LOANS

## LOANS

Public Board and Ind.

## LOANS—Continued

Financial

Building Societies

## FOREIGN BONDS & RAILS

## AMERICANS

## CANADIANS

## BANKS AND HIRE PURCHASE

## BANKS & H.P.—Cont.

Hire Purchase, etc.

## BEERS, WINES AND SPIRITS

## BUILDING INDUSTRY, TIMBER AND ROADS

## CHEMICALS, PLASTICS

## CHEMICALS, PLASTICS—Cont.

## DRAPERY AND STORES

## ELECTRICALS

## ENGINEERING MACHINE TOOLS

## ENGINEERING—Continued

## FOOD, GROCERIES, ETC.

## FOOD, GROCERIES—Cont.

## HOTELS AND CATERERS

## INDUSTRIALS (Miscel.)

## INDUSTRIALS—Continued

[illegible]

## INSURANCE

[illegible]

## LEISURE

[illegible]

## LEISURE—Continued

[illegible]

## MOTORS, AIRCRAFT TRADES

### Motors and Cycles

[illegible]

### Commercial Vehicles

[illegible]

### Components

[illegible]

### Garages and Distributors

[illegible]

## NEWSPAPERS, PUBLISHERS

[illegible]

## PAPER, PRINTING ADVERTISING

[illegible]

## PROPERTY

[illegible]

## PROPERTY—Continued

[illegible]

## SHIPPING

[illegible]

## SHOES AND LEATHER

[illegible]

## SOUTH AFRICANS

[illegible]

## TEXTILES

[illegible]

## TOBACCOS

[illegible]

## TRUSTS, FINANCE, LAND

### Investment Trusts

[illegible]

## INVESTMENT TRUSTS—Cont.

[illegible]

### Finance, Land, etc.

[illegible]

## OIL AND GAS

[illegible]

## OIL AND GAS—Continued

[illegible]

## OVERSEAS TRADERS

[illegible]

## RUBBERS AND SISALS

[illegible]

## TEAS

### India and Bangladesh

[illegible]

### Sri Lanka

[illegible]

## MINES

### Central Rand

[illegible]

### Eastern Rand

[illegible]

### Far West Rand

[illegible]

### O.F.S.

[illegible]

### Finance

[illegible]

### Diamond and Platinum

[illegible]



## MINES—Continued

### Central African

| Dividends Paid | Stock | Price | Last xd | Div Net | Cvr | Yld Gr's |
|---|---|---|---|---|---|---|
| Nov. May | Falcon Rh.50c | 80 | 15 | 025c | 0.8 | 29.3 |

[illegible]

### Australian

[illegible]

### Tins

[illegible]

### Copper

[illegible]

### Miscellaneous

[illegible]

## NOTES

[illegible] ... dividend cover based on previous year's earnings. v Tax free up to 30p in the £. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1983-84. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1982. K Figures based on prospectus or other official estimates for 1981-82. M Dividend and yield based on prospectus or other official estimates for 1983. N Dividend and yield based on prospectus or other official estimates for 1982-83. P Figures based on prospectus or other official estimates for 1982. Q Gross. T Figures assumed. Z Dividend total to date. Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xc ex capital distribution.

## REGIONAL AND IRISH STOCKS

The following is a selection of regional and Irish stocks, the latter being quoted in Irish currency.

| | | |
|---|---|---|
| Albany Inv. 20p | 40 | ...... |
| Bertrams | 17¢ | ...... |
| Bdg'wtr. Est. 50p | 408 | ...... |
| Craig & Rose £1 | £12½ | ...... |
| Finlay Pkg. 5p | 28 | ...... |
| Graig Ship. £1 | £24 | −2 |
| Higsons Brew. | 90 | ...... |
| Holt (Jos) 25p | 870 | ...... |
| I.O.M. Stm. £1 | 112 | −1 |
| Pearce (C. H.) | £18½ | ...... |
| Peel Hldgs. | 147 | ...... |
| Sheff. Refrshmt. | 79 | ...... |
| Sindall (Wm.) | 215 | ...... |

IRISH

| | | |
|---|---|---|
| Conv. 9% '80/82 | £97⅝ | ...... |
| Nat. 9¾% 84/89 | £71½ | ...... |
| Fin. 13% 97/02 | £74¼ | ...... |
| Alliance Gas | 85 | ...... |
| Arnott | 195 | ...... |
| Carroll (P.J.) | 70xd | −1 |
| Concrete Prods. | 67 | −6 |
| Helton (Hldgs.) | 19 | −1 |
| Irish Ropes | 94½ | ...... |
| Jacob | 69 | ...... |
| T.M.G. | 7 | ...... |
| Unidare | 47 | ...... |

## OPTIONS

### 3-month Call Rates

[illegible]

| | | | | | |
|---|---|---|---|---|---|
| Dunlop | 6½ | Racal Elect | 35 | KCA | 14 |
| Eagle Star | 31 | R.H.M. | 6½ | Premier | 6 |
| F.N.F.C. | 4 | Rank Org. Ord. | 20 | Shell | 30 |
| Gen. Accident | 28 | Reed Intnl. | 26 | Tricentrol | 22 |
| Gen. Electric | 65 | Sears | 6 | Ultramar | 38 |
| Glaxo | 42 | T.I. | 13 | | |
| Grand Met. | 17 | Tesco | 5½ | Mines | |
| G.U.S. 'A' | 45 | Thorn EMI | 42 | Charter Cons. | 25 |
| Guardian | 25 | Trust Houses | 11 | Cons. Gold | 45 |
| G.K.N. | 15 | Turner & Newall | 11 | Lonrho | 7 |
| Hawker Sidd. | 30 | Unilever | 55 | Rio T. Zinc | 42 |

"Recent Issues" and "Rights" Page 14

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# FINANCIAL TIMES

Monday June 21 1982




## Italian alarm after banker's death

BY RUPERT CORNWELL IN ROME

THE MACABRE discovery of the body of Sig Roberto Calvi, 61, chairman of Banco Ambrosiano, in London has created consternation and alarm among Italy's financial community and politicians alike.

The body of the financier, until last wek at the helm of his country's largest banking group in private hands, was found hanging from Blackfriars Bridge on Friday.

Only a post-mortem tomorrow will determine how he met his death in this situation.

Italian magistrates just back from London appear to support a suicide theory.

The death has been the climax of a dramatic week in Rome and only underlines how the Ambrosiano affair threatens to prove Italy's biggest financial scandal since the collapse of the Sindona empire in 1974.

The basic uncertainties are two-fold. Immediately, the authorities are deeply anxious about how markets will react today.

The gathering crisis at Ambrosiano led to a 30 per cent drop in its share price last week before trading was suspended on Thursday night, and the Bank of Italy nominated a temporary commissioner to take charge.

Hours later Sig Calvi's private secretary took her life.

At the weekend a second group of three commissioners was appointed by the Central Bank to superintend Ambrosiano. This move, the Central Bank hopes, will avert a crisis of public confidence and a possible run on the bank.

All along the authorities have maintained that the Italian end of the group, including the Toro insurance group, Credito Varesino and Banca Cattolica del Veneto, the most profitable single bank, is sound. Total assets are little short of $20bn (£11.5bn).

This is despite Ambrosiano's reported involvement with the troubled Italmobiliare concern of Sig Carlo Pesenti, and with the debt-ridden Rizzoli publishing house.

The real doubts revolve round Latin American offshoots of Ambrosiano, in particular the Banco Andino of Lima.

In a letter to Sig Calvi shortly before he vanished from Rome on June 10 the Bank of Italy intimated that these subsidiaries had a total exposure of $1.4bn in loans of which little is known.

Sig Calvi kept details of the intricate operation of foreign subsidiaries a closely-guarded secret. It is widely believed that through them he held effective control of the bank.

For over a year he was at the centre of mounting controversy, in particular since the deal with Rizzoli, whose ownership of Italy's most important newspaper, the Corriere della Sera, makes it the object of intense political interest.

Within weeks he was charged with currency offences and appeared in the membership list of the P-2 Freemasons' Lodge, alleged to have been a "State within the State." During his trial he tried to commit suicide, and in July was sentenced to four years' jail.

He remained at liberty pending an appeal due today. Consistently good results from his banks have not prevented allegations of improper conduct at Ambrosiano, and of close involvement with political parties.

The circumstances of his flight from Italy on a passport carrying the name "Giampiero Roberto Calvino" are a complete mystery, as is his reason for going to London, a city which never featured in his affairs: and whom he saw there.

Many believe that he was under fierce pressure, possibly related to he P-2 and its fugitive grandmaster, Sig Licio Gelli.

In April Sig Roberto Rosone, Ambrosiano's deputy chairman and Sig Calvi's right-hand man, was wounded in a Milan shooting, widely interpreted as a "warning" to Sig Calvi himself.

Conceivably light could be thrown to the background of the whole murky affair by the interrogation under way in Rome of Sig Bruno Tassan Din, managing director of Rizzoli, arrested on charges of irregular dealings in shares of an insurance company.

He, like several other senior Corriere journalists, was also involved with the P-2.

To the end Sig Calvi insisted that his troubles had begun in earnest with the agreement, of dubious financial justification, linking La Centrale with Rizzoli—Corrier della Sera.

Gareth Griffiths writes: The City Police said yesterday it was trying to establish where and when Mr Calvi entered the UK, and what his movements were from entry until death. No date for an inquest had been set and Interpol would be kept informed of developments.

Five senior Italian policemen, including the Milan deputy public prosecutor, were in London on Saturday for what police called a "two-way exchange" on the case.

## Government likely to support job compromise

By Philip Bassett, Labour Correspondent

THE GOVERNMENT is likely to support compromise proposals providing temporary part-time work for the long-term unemployed which are to be considered tomorrow by the Manpower Services Commission.

The proposals are a substantial variant on the original scheme put forward in the Budget by the Chancellor of the Exchequer in an effort to reduce the numbers of long-term unemployed, which are expected to top 1m this year.

The £150m scheme will cover about 100,000 of the long-term unemployed and is in addition to the training scheme which will be announced today by Mr Norman Tebbit, Employment Secretary. Mr Tebbit will accept the new training initiative proposed by the MSC, and will publicly drop his insistence that those who refuse places on it should in turn be refused supplementary benefit.

Details of the compromise over the Budget scheme which will go before the MSC tomorrow are spelt out in a confidential memorandum from Mr Geoffrey Holland, MSC director.

They suggest that participants in the scheme work part-time for a wage set at the part-time equivalent of the rate for the job. They would also receive training funded by the MSC.

Exactly how the week should be divided has not yet been agreed, but the most likely option is that there should be 2½ days' pay to 2½ days' benefit.

This is substantially different from the scheme originally proposed in the Budget, which envisaged only the payment of benefit, plus any expenses.

While the wage is less than the four days' pay such groups as the Trades Union Congress and voluntary organisations were seeking, the TUC is unlikely to oppose the 2½-2½ proposal, if as is likely, it wins government approval.

The MSC paper says the scheme has "considerable attractions." In particular, it says: "The scheme would represent an attractive half-way stage between long-term unemployment and full-time employment, particularly with the option of further education or training during the period in which participants were not engaged in temporary work."

The MSC also believes the scheme might prove attractive to many sponsors, especially local authorities; and that it would be attractive to single long-term unemployed people, who comprise about two-thirds of the total.

The scheme would be in addition to the Community Enterprise Programme.

## Talks on Costa Rica bond plans

BY PETER MONTAGNON, EUROMARKET CORRESPONDENT

MANAGERS of Costa Rica's external bond issues will meet in Geneva a week today to consider proposals which could set a precedent for treatment of Eurobonds in international debt rescheduling.

The study group consists of a banks' representative, a lawyer and a representative of Costa Rica. They suggest that bond holders be asked to exchange their paper for new bonds which bear conditions akin to those in the commercial bank rescheduling.

But the proposals, which have been agreed in principle by the creditor banks and Costa Rica, emphasise that such an exchange should be voluntary.

The proposals, by a special study group followed criticism in the bond market of efforts by creditor banks to draw bond holders into arrangements to reschedule Costa Rica's $3bn (£1.73bn) foreign debt. The sum is equivalent to 60 per cent of the country's gross domestic product.

The banks insisted that the bond holders be included, to prevent preferential treatment of them, but the bond managers objected on the grounds that rescheduling of bonds went against the principles of the securities market.

Costa Rica has five international bonds outstanding, for a total of about $130m.

Acceptance of the proposals by the bond managers would offer a solution to a problem which has plagued the Euromarkets since the Polish debt dilemma emerged last year.

The solution for holders of Polish bonds involved making a distinction between corporate holders of the paper—many of which were banks—and private individuals. The latter were to be repaid on schedule, the former to be subjected to the rescheduling.

Bond market bankers said that was both invidious, because it offered unequal treatment to bond holders, and impracticable, because it was very difficult to establish the true identity of bond holders in the Euromarket.

Since then, the stream of corporate and sovereign reschedulings has continued and, with more debt problems in prospect, the debate over rescheduling bond issues has become increasingly urgent.

Even if the new proposals were to be accepted by the bond managers, they would still present difficult technical problems.

Bonds, Page 18

## TUC requests unions to pay fees earlier

BY PHILIP BASSETT, LABOUR CORRESPONDENT

THE TUC is formally requesting its 108 affiliated unions to advance payment of their affiliation fees by three months because of current internal cash-flow difficulties.

Last year the TUC was in the red by £420,500. This year there are suggestions that the deficit could rise to £1m. The main cause of the problems is the effect on unemployment in pushing down the memberships of affiliated trade unions. At present, individual unions pay 47.5p per member a year in affiliation fees.

As a first step to improving its cash flow, at the end of last year the TUC asked constituent unions to change their time of paying affiliation fees from the usual end of a quarter to the beginning. While the positive response of many unions to this suggestion has helped the TUC, it has not been enough.

Accordingly, the TUC has now decided to ask all its unions to make this change. Since it may require an alteration to TUC rules it may have to be put to Congress in September.

The TUC says that if this is not done it will have to borrow money to meet its current costs. In the long run these will be more expensive for affiliated unions since they would have to cover the costs of interest charges.

The TUC also believes that if unions do not comply with this request, then affiliation fees—which provided an income of £3,073,728 in 1980, according to the TUC's last accounts—will have to be increased again.

At present the TUC is hoping to be able to make no request to Congress for an increase, though it will depend on the unions' response to this initiative.

The TUC "inner cabinet," its finance and general purposes committee, will today consider further the thorny question of the structure of the TUC general council. Today's meeting, and the council's on Wednesday, will be among the final sessions for preparing a report on the issue to Congress.

Today's meeting will be told how small unions in the TUC responded to the motion passed by last year's Congress, which would give general council seats automatically to those unions with more than 100,000 members.

Following consultation with the small unions it is understood that they have in the main decided in favour of the "single list" option, which would mean their voting for 11 general council members from a single list, regardless of trade group, in addition to the so-called automaticity proposals.

This now seems likely to be the basis of the TUC's report to Congress. But it will be challenged by a motion from the miners arguing for a rejection of last year's resolution and a return to the status quo ante.

This move may now well receive enough support to secure victory.

## SDP credit scheme for industry

BY JOHN ELLIOTT, INDUSTRIAL EDITOR

AN INDUSTRIAL credit scheme to provide cheap long-term finance for industrial projects which meet criteria set down for a Liberal-Social Democratic Alliance Government was proposed at the weekend by an SDP study group.

The aim would be to back projects which "contributed to the restructuring of industry" and possibly those boosting regional development.

They might include advanced manufacturing systems, new products, or formation of marketing and distribution facilities abroad.

The proposal is in an SDP "green paper" published at the weekend.

This suggests creation of a Ministerial committee on industry headed by the Prime Minister, served by a secretariat of civil servants and businessmen, supported by an advisory panel on industrial policy made up of 10 or 12 senior industrialists.

Five-year medium-term loans would be provided at a rate 5 percentage points below current interest rates. The paper suggests that a subsidy of £100m a year for five years would enable £2bn of cheap loans to be provided, protecting industry from the impact of the high interest rates.

Mr Bill Rodgers, the MP who led the working party that produced the report, envisages £300m devoted to this each year.

Total cost of proposals in the report has been provisionally costed at £650m to £750m, on top of the Industry Department's current £2bn budget.

Details, Page 5

## Falklands Continued from Page 1

The Argentine general staff announced at the weekend that the British ice patrol vessel, HMS Endurance, and British troops landed from two helicopters early on Saturday afternoon, were poised to capture the tiny Argentine naval outpost of 10 men on Morrell Island in the Southern Thule group of the South Sandwich Islands.

The Argentine navy had been in occupation of the rocky outcrop since 1976.

John Wyles in Luxembourg writes: Britain came under strong pressure last night from its EEC partners, led by West Germany, to agree to lift the Community's trade sanctions against Argentina.

Mr Francis Pym, the British Foreign Secretary, argued with other EEC Foreign Ministers in favour of continuing the trade embargo until Argentina had formally announced and end to hostilities. But Herr Hans Dietrich Genscher, the West German Foreign Minister, is thought to have pressed hard for the embargo to be lifted now

## Weather

London, S.W., S.E., E. Anglia, Midlands, N. Wales, N.W.
Showers, some bright periods. Max 19C (66F).

N. England, N. Ireland, S.W. Scotland, Isle of Man
Rain at times, some bright intervals. Max 16C (61F).

S.W. England, Chan Isles, S. Wales
Cloudy, heavy showers, some sunny intervals. Max 18C (64F).

Glasgow, Cent Highlands, N.W. Scotland
Mainly dry, some sunny intervals. Max 15C (59F).

Elsewhere
Mainly dry, cool and cloudy.

Outlook
Showers, bright intervals, temperatures near normal.

### WORLDWIDE

| | | Y'day midday °C | °F | | | Y'day midday °C | °F |
|---|---|---|---|---|---|---|---|
| Ajaccio | F | 14 | 57 | L. Ang.† | C | 16 | 61 |
| Algiers | S | 28 | 82 | Luxmbg. | S | 18 | 64 |
| Amsdm. | F | 17 | 63 | Luxor | F | 40 | 104 |
| Athens | S | 27 | 81 | Madrid | F | 28 | 82 |
| Bahrain | S | 33 | 91 | Majorca | S | 28 | 82 |
| Barclna. | F | 26 | 79 | Malaga | S | 28 | 82 |
| Beirut | — | — | — | Malta | F | 32 | 90 |
| Belfast | C | 17 | 63 | M'chstr | C | 15 | 59 |
| Belgrd. | S | 23 | 73 | Melbne. | C | 11 | 52 |
| Berlin | C | 17 | 63 | Mx. C.† | — | — | — |
| Biarritz | F | 26 | 79 | Miami† | S | 26 | 79 |
| Bmghm. | C | 18 | 64 | Milan | F | 25 | 77 |
| Blackpl. | C | 15 | 59 | Montrl.† | C | 13 | 55 |
| Bordx. | F | 24 | 75 | Moscow | C | 15 | 59 |
| Boulgn. | S | 16 | 61 | Munich | F | 18 | 64 |
| Bristol | C | 18 | 64 | Nairobi | C | 24 | 75 |
| Brussels | F | 18 | 64 | Naples | F | 25 | 77 |
| Budpst. | F | 23 | 73 | Nassau | — | — | — |
| Cairo | S | 33 | 91 | Nwcstl | C | 14 | 57 |
| Cardiff | S | 19 | 66 | N York† | S | 18 | 64 |
| Cas'b'ca | S | 21 | 70 | Nice | F | 24 | 75 |
| Cape T. | F | 24 | 75 | Nicosia | — | — | — |
| Chicg.† | C | 14 | 57 | Oporto | C | 17 | 63 |
| Cologne | R | 13 | 60 | Oslo | S | 18 | 64 |
| Cpnhgn. | R | 13 | 64 | Paris | F | 20 | 68 |
| Corfu | S | 27 | 81 | Perth | S | 15 | 59 |
| Denver† | — | — | — | Prague | C | 13 | 64 |
| Dublin | S | 17 | 63 | Rykjvk. | C | 9 | 48 |
| Dbrvnk. | S | 25 | 77 | Rhodes | S | 28 | 82 |
| Ednbgh. | C | 13 | 55 | Rio J'o† | — | — | — |
| Faro | F | 22 | 72 | Rome | S | 26 | 79 |
| Florence | S | 28 | 82 | Salzbrg. | F | 21 | 70 |
| Frankft. | C | 19 | 66 | S'cisco† | — | — | — |
| Funchal | S | 22 | 72 | S. Mrtz. | — | — | — |
| Geneva | F | 20 | 68 | Singapr. | C | 29 | 84 |
| Gibrltr. | S | 26 | 79 | S'tiago† | — | — | — |
| Gl'sg'w | R | 13 | 55 | Stckhm. | T | 17 | 63 |
| G'rnsey | F | 17 | 63 | Strasbg. | F | 21 | 70 |
| Helsinki | S | 18 | 64 | Sydney | C | 16 | 61 |
| H. Kong | R | 30 | 86 | Tangier | S | 22 | 72 |
| Innsbrk. | S | 22 | 72 | Tel Aviv | S | 30 | 86 |
| Invrnss. | C | 14 | 57 | Tenerife | S | 22 | 72 |
| I.o.Man | — | — | — | Tokyo | F | 26 | 79 |
| Istanbul | S | 26 | 79 | T'r'nto† | F | 11 | 52 |
| Jersey | F | 19 | 66 | Tunis | F | 41 | 106 |
| Jo'burg | S | 14 | 57 | Valencia | S | 28 | 82 |
| L. Plms. | S | 22 | 72 | Venice | S | 24 | 75 |
| Lisbon | F | 20 | 68 | Vienna | F | 22 | 72 |
| Locarno | F | 24 | 75 | Warsaw | F | 18 | 64 |
| London | F | 20 | 68 | Zurich | S | 19 | 66 |

C—Cloudy. F—Fair. R—Rain. S—Sunny. T—Thunder.
† Noon GMT temperatures.

## Commons inquiry into property agency

BY ANDREW TAYLOR

A PARLIAMENTARY investigation into alleged "fraud and irregularities" at the Property Services Agency — the body responsible for the acquisition and management of government property—starts today.

An independent inquiry into affairs at the agency, ordered by Mr Michael Heseltine, Environment Secretary, is already under way.

The investigation by the Commons Public Accounts Committee has been triggered by a memorandum from the Comptroller and Auditor General which refers to a number of disturbing cases where civil servants have either been convicted or charged with dishonesty.

In the separate investigation Mr Heseltine has commissioned Sir Geoffrey Wardale, a former second permanent secretary at the Environment Department, together with a senior partner at Touche Ross, chartered accountants, "to investigate the circumstances of recent cases of fraud and corruption in the Property Services Agency."

When he announced that inquiry, Mr Heseltine told the Commons: "The small number who have been found guilty of fraud or corruption have brought discredit both on themselves and on the Government's services generally. I am looking to the inquiry to give a realistic perspective to this matter and to suggest what changes in procedures or management might be desirable."

The investigations come in the wake of several recent court cases which have involved agency staff in allegations of corruption. Earlier this year a former agency professional and technical officer was found guilty at the Old Bailey of taking bribes from maintenance contractors. Other court cases have involved members of agency staff at Plymouth, Devon and Donnington, Shropshire.

The Metropolitan Police Fraud Squad has also been investigating allegations of corruption which may involve London staff of the agency. The investigations, which began in 1976, are continuing.

The Public Accounts Committee may decide to hear in private some of the evidence due to be given today and at a further session of the committee planned for Wednesday. This is because material discussed might prejudice any future court hearings.

Mr Monty Alfred, agency chief executive, who is due to be a witness at today's select committee hearing, has become increasingly concerned at public criticism of the government agency.

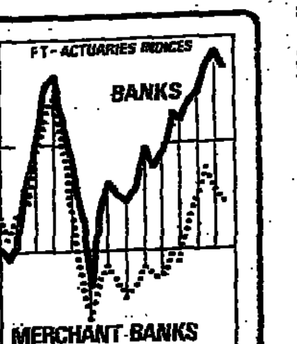
He says: "The assertion that the agency is an organisation of considerable inefficiency and has been over the last decade hardly squares with the facts. Since its formation in 1972, although the workload overall has hardly changed, the numbers employed at the agency have fallen from 45,000 to 30,000.

"Any organisation can become a victim of dishonest staff and its procedures and practices put at risk, accordingly. It is for this reason that the Secretary of State set up an independent iquiry."

## THE LEX COLUMN

# No banking on inner reserves

There is a great deal of comfort in having something tucked away up your sleeve. Bankers certainly like indulging in a little sleight-of-hand when they produce their accounts—nothing that will seriously deceive, you understand, but only a modicum of prestidigitation to impress the audience. The right of European banks to maintain hidden reserves is perpetuated by the draft EEC Directive on bank reporting, which allows loans and advances to be undervalued by up to 5 per cent.




Such concessions are enjoyed by banks in most European countries, though in the UK the dispensation is limited to a relatively small number of merchant banks, mostly those which are members of the Accepting Houses Committee, and to the dozen or so discount houses. Hidden reserves are not, however, permitted in the U.S. and the increasing internationalisation of the operations of banks is changing the whole approach to the question. The most important users of bank accounts are increasingly becoming other banks—and they are unlikely to be satisfied with a quality of financial reporting which has been designed to calm the nerves of unsophisticated local depositors.

So it is that in the UK a select committee of the House of Lords has come out against secret reserves. And even in Switzerland, the bastion of banking privilege and secrecy, the Swiss Banking Commission has been far from pleased at the way in which banks have used their secret reserves to cover up the effects of financial blunders.

### Confidence

The argument for the existence of hidden reserves is that they provide a cushion for a bank in hard times. A bank relies on the confidence of depositors, which might be shaken if large exceptional losses were reported. Depositors, it can be argued, feel more comfortable in the knowledge that a bank has something in reserve to draw upon.

But such an approach immediately renders the accounts useless for more precise purposes, such as the valuation of the bank's shares. And it is more than a little paradoxical that banks should seek to impress their customers by showing themselves to be less rich than they really are.

There is also the question of how such hidden reserves should be accumulated. Unless they can be created out of capital profits or exceptional income of some kind, they will have to be built up by the diversion of part of each year's profits. Because of this, the maintenance of a balance sheet cushion also has the effect of giving a bank's management the opportunity to manipulate the profit and loss account.

How this is done varies between banks. There is a lot to be said for the approach of several of the private accepting houses, such as Baring Brothers, which simply shows as profit the amount needed to cover the dividend. Thus the Baring profit and loss account for 1981 consists of just two items — profit after tax and transfer to inner reserves £1m, dividends £1m. At least this has the merit of being transparently unhelpful.

But the listed accepting houses follow a different policy, and Hill Samuel, for instance, has just published banking profits of £12.58m against £10.68m for the year to March 1982. Such precise figures could mislead users of the accounts into thinking they have more meaning than they have. In fact the rule is that the disclosed figures reflect the trend of the true results — although not the magnitudes.

A third, still more artificial disclosure policy is possible, in which a smooth, gently rising earnings trend is manufactured from the volatile raw ingredients. This appears to have been the approach of some of the Swiss banks, so that Credit Suisse's earnings profile was barely dented by the Chiasso losses in 1977. And more recently Swiss Volksbank declared higher profits for 1980 despite bearing the burden of customers' losses on silver dealings, although by 1981 the losses had become so large, and the general banking climate so difficult, that it had finally to report a sharp drop in published earnings.

Many bankers would no doubt argue that these distortions are a price worth paying for the sake of public confidence. But, to an increasing extent, banks are no longer able to hide their hidden assets. They no longer deal with just local depositors, but also with other banks around the world—who run balance-sheets through their computers. If the published balance-sheet ratios are not good enough, then vague talk about secret reserves—which may or may not be there—is not going to cut much ice in the international credit markets.

This leads to the phenomenon of the repeated release of inner reserves into the published balance-sheets. Baring Brothers, for instance, has taken to transferring £3m a year, and many other UK accepting houses have done the same.

A similar policy has been adopted by that Far Eastern advocate of hidden reserving, the Hongkong and Shanghai Banking Corporation, where HK$400m was shifted last year out of the reputedly vast secret reserves into published shareholders' funds. Because of this recycling process, some analysts believe that the Hongkong Bank's inner reserves are in fact comparatively small.

### Lacklustre

So we have a decidedly curious situation in which many banks are tucking more profits away into their inner reserves than they can afford to leave there. The cushioning effect of the hidden assets against major disasters is therefore only limited—and the main purpose of the maintenance of such reserves has come to be the habitual manipulation of earnings.

Such distortions are against the interests of external users of accounts, and the question must be seriously asked whether they do the banks themselves any good. In the UK, the two groups which cling to the "privilege" of exemption from full disclosure requirements, the merchant banks and the discount houses, have produced very lack-lustre performances in the stock market over the years.

The UK clearing banks and the U.S. banks do not appear to have been notably harmed by full disclosure. There is a strong case for arguing that the need to publish true profits sharpens the competitive attitude of a bank and encourages the management to think more carefully about exposure to risk. And judging by the public catalogue of mishaps in Swiss banking, secrecy is in any case no longer something which can be sustained by means of financial reporting privileges.





هكذا من الأصل